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Form 10-Q
May 03, 2019

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

(Mark One)

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2019
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

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

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).
YES [X] NO [ ]

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

| | | | | |
|---|---|---|---|---|
| Large accelerated filer | [X] | | Accelerated filer | [ ] |
| Non-accelerated filer | [ ] | (Do not check if a smaller reporting company) | Smaller reporting company | [ ] |
| | | | Emerging growth company | [ ] |

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.
YES [ ] NO [ ]

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

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

| **Class** | **Number of Shares Outstanding at March 31, 2019** |
|---|---|
| Common Stock, par value $0.01 per share | 138,578,592 |

**--------------------------------------------------------------------------------------------------------------------------**

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**FORWARD-LOOKING STATEMENTS**

Certain statements made or incorporated by reference in this Quarterly Report are "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act (Section 27A of the Securities Act of 1933, as amended and Section 21E of the Securities and Exchange Act of 1934, as amended). Forward-looking statements are all statements, other than statements of historical fact, that may be made by Eastman Chemical Company ("Eastman" or the "Company") from time to time. In some cases, you can identify forward-looking statements by terminology such as "anticipates", "believes", "estimates", "expects", "intends", "may", "plans", "projects", "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; exposure to, and effects of hedging of, raw material and energy prices and costs; foreign currencies and interest rates; disruption or interruption of operations and of raw material or energy supply; global and regional economic, political, and business conditions; competition; growth opportunities; supply and demand, volume, price, cost, margin and sales; pending and future legal proceedings; earnings, cash flow, dividends, stock repurchases and other expected financial results, events, and conditions; expectations, strategies, and plans for individual assets and products, businesses, and operating 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 and technology and product innovation initiatives and development, production, commercialization and acceptance of new products, services and technologies and related costs; asset, business, and product portfolio changes; and expected tax rates and 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 - Risk Factors" in Part I, Item 2 of this Quarterly Report. Other factors, risks or uncertainties of which management is not aware, or presently deems immaterial, could also cause actual results to differ materially from those in the forward-looking statements.

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

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# PART I. FINANCIAL INFORMATION
## ITEM 1. FINANCIAL STATEMENTS

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

| | First Quarter | |
|---|---|---|
| (Dollars in millions, except per share amounts) | **2019** | **2018** |
| Sales | $2,380 | $2,607 |
| Cost of sales | 1,806 | 2,026 |
| Gross profit | 574 | 581 |
| Selling, general and administrative expenses | 187 | 190 |
| Research and development expenses | 58 | 56 |
| Asset impairments and restructuring charges, net | 32 | 2 |
| Other components of post-employment (benefit) cost, net | (21) | (30) |
| Other (income) charges, net | (2) | (46) |
| Earnings before interest and taxes | 320 | 409 |
| Net interest expense | 56 | 59 |
| Earnings before income taxes | 264 | 350 |
| Provision for income taxes | 55 | 60 |
| Net earnings | 209 | 290 |
| Less: Net earnings attributable to noncontrolling interest | — | — |
| Net earnings attributable to Eastman | $209 | $290 |
| | | |
| Basic earnings per share attributable to Eastman | $1.50 | $2.03 |
| Diluted earnings per share attributable to Eastman | $1.49 | $2.00 |
| **Comprehensive Income** | | |
| Net earnings including noncontrolling interest | $209 | $290 |
| Other comprehensive income (loss), net of tax: | | |
| Change in cumulative translation adjustment | 30 | 27 |
| Defined benefit pension and other postretirement benefit plans: | | |
| Amortization of unrecognized prior service credits | (7) | (7) |
| Derivatives and hedging: | | |
| Unrealized gain (loss) during period | 10 | (23) |
| Reclassification adjustment for (gains) losses included in net income, net | (2) | — |
| Total other comprehensive income (loss), net of tax | 31 | (3) |
| Comprehensive income including noncontrolling interest | 240 | 287 |
| Less: Comprehensive income attributable to noncontrolling interest | — | — |
| Comprehensive income attributable to Eastman | $240 | $287 |
| **Retained Earnings** | | |
| Retained earnings at beginning of period | $7,573 | $6,802 |
| Cumulative effect adjustment resulting from adoption of new accounting standards | (20) | 16 |
| Net earnings attributable to Eastman | 209 | 290 |
| Cash dividends declared | (87) | (82) |
| Retained earnings at end of period | $7,675 | $7,026 |

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

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**UNAUDITED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

| (Dollars in millions, except per share amounts) | March 31, 2019 | December 31, 2018 |
|---|---|---|
| **Assets** | | |
| Current assets | | |
| Cash and cash equivalents | $195 | $ 226 |
| Trade receivables, net of allowance for doubtful accounts | 1,297 | 1,154 |
| Miscellaneous receivables | 285 | 329 |
| Inventories | 1,704 | 1,583 |
| Other current assets | 70 | 73 |
| Total current assets | 3,551 | 3,365 |
| Properties | | |
| Properties and equipment at cost | 12,796 | 12,731 |
| Less: Accumulated depreciation | 7,220 | 7,131 |
| Net properties | 5,576 | 5,600 |
| Goodwill | 4,477 | 4,467 |
| Intangible assets, net of accumulated amortization | 2,130 | 2,185 |
| Other noncurrent assets | 627 | 378 |
| Total assets | $16,361 | $ 15,995 |
| | | |
| **Liabilities and Stockholders' Equity** | | |
| Current liabilities | | |
| Payables and other current liabilities | $1,490 | $ 1,608 |
| Borrowings due within one year | 862 | 243 |
| Total current liabilities | 2,352 | 1,851 |
| Long-term borrowings | 5,602 | 5,925 |
| Deferred income tax liabilities | 892 | 884 |
| Post-employment obligations | 915 | 925 |
| Other long-term liabilities | 681 | 532 |
| Total liabilities | 10,442 | 10,117 |
| Stockholders' equity | | |
| Common stock ($0.01 par value – 350,000,000 shares authorized; shares issued – 219,523,859 and 219,140,523 for 2019 and 2018, respectively) | 2 | 2 |
| Additional paid-in capital | 2,060 | 2,048 |
| Retained earnings | 7,675 | 7,573 |
| Accumulated other comprehensive income (loss) | (194 ) | (245 ) |
| | 9,543 | 9,378 |
| Less: Treasury stock at cost (80,996,065 shares for 2019 and 79,413,989 shares for 2018) | 3,700 | 3,575 |
| Total Eastman stockholders' equity | 5,843 | 5,803 |
| Noncontrolling interest | 76 | 75 |
| Total equity | 5,919 | 5,878 |
| Total liabilities and stockholders' equity | $16,361 | $ 15,995 |

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

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**UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS**

| | First Three Months | |
|---|---|---|
| (Dollars in millions) | **2019** | **2018** |
| Operating activities | | |
| Net earnings | $209 | $290 |
| Adjustments to reconcile net earnings to net cash used in operating activities: | | |
| Depreciation and amortization | 155 | 152 |
| Gain from property insurance | — | (50 ) |
| Provision for deferred income taxes | 4 | 11 |
| Changes in operating assets and liabilities, net of effect of acquisitions and divestitures: | | |
| (Increase) decrease in trade receivables | (149 ) | (223 ) |
| (Increase) decrease in inventories | (122 ) | (80 ) |
| Increase (decrease) in trade payables | (42 ) | 8 |
| Pension and other postretirement contributions (in excess of) less than expenses | (36 ) | (36 ) |
| Variable compensation (in excess of) less than expenses | (77 ) | (77 ) |
| Other items, net | 53 | (30 ) |
| **Net cash used in operating activities** | (5 ) | (35 ) |
| Investing activities | | |
| Additions to properties and equipment | (106 ) | (128 ) |
| Proceeds from property insurance | — | 50 |
| Acquisitions, net of cash acquired | (19 ) | — |
| **Net cash used in investing activities** | (125 ) | (78 ) |
| Financing activities | | |
| Net increase (decrease) in commercial paper and other borrowings | 370 | 199 |
| Proceeds from borrowings | 125 | 275 |
| Repayment of borrowings | (175 ) | (175 ) |
| Dividends paid to stockholders | (87 ) | (80 ) |
| Treasury stock purchases | (125 ) | (100 ) |
| Other items, net | (6 ) | (3 ) |
| **Net cash provided by financing activities** | 102 | 116 |
| Effect of exchange rate changes on cash and cash equivalents | (3 ) | — |
| Net change in cash and cash equivalents | (31 ) | 3 |
| Cash and cash equivalents at beginning of period | 226 | 191 |
| Cash and cash equivalents at end of period | $195 | $194 |

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

**NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**

## NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

## 1. SIGNIFICANT ACCOUNTING POLICIES

### Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared by Eastman Chemical Company ("Eastman" or the "Company") in accordance and consistent with the accounting policies stated in the Company's 2018 Annual Report on Form 10-K, and should be read in conjunction with the consolidated financial statements in Part II, Item 8 of that report, with the exception of the items noted below. The December 31, 2018 financial position data included herein was derived from the audited consolidated financial statements included in the 2018 Annual Report on Form 10-K but does not include all disclosures required by accounting principles generally accepted in the United States ("GAAP").

In the opinion of management, the unaudited consolidated financial statements include all normal recurring adjustments necessary for fair statement of the interim financial information in conformity with GAAP. These statements contain some amounts that are based upon management estimates and judgments. Future actual results could differ from such current estimates. The unaudited consolidated financial statements include assets, liabilities, sales revenue, and expenses of all majority-owned subsidiaries and joint ventures in which a controlling interest is maintained. Eastman accounts for other joint ventures and investments where it exercises significant influence on the equity basis. Intercompany transactions and balances are eliminated in consolidation.

### Recently Adopted Accounting Standards

*Accounting Standards Update ("ASU") 2016-02 Leases:* On January 1, 2019, Eastman adopted this standard, and related releases, under the modified retrospective optional transition method such that prior period financial statements have not been adjusted to reflect the impact of the new standard and adoption did not result in an impact to retained earnings. Upon adoption, operating right-to-use assets and lease liabilities were $208 million. The new standard establishes two types of leases: finance and operating. Both finance and operating leases will have associated right-to-use assets and lease liabilities that have been valued at the present value of the lease payments and recognized on the Unaudited Consolidated Statement of Financial Position. For further information, see Note 8, "Leases and Off Balance Sheet Items".

*ASU 2018-02 Income Statement - Reporting Comprehensive Income:* On January 1, 2019, Eastman adopted this standard in the current period resulting in the reclassification of $20 million of stranded tax expense from accumulated other comprehensive income (loss) ("AOCI") to retained earnings as a result of the 2017 Tax Cuts and Jobs Act ("Tax Reform Act"). The amount of the reclassification is the effect of the change in the U.S. federal corporate income tax rate on the gross deferred tax amounts and related valuation allowances related to items remaining in AOCI.

*ASU 2018-15 Internal-Use Software - Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract:* On January 1, 2019, Eastman adopted this standard prospectively which did not result in a material impact on the Company's financial statements and related disclosures.

*ASU 2018-16 Derivatives and Hedging - Inclusion of the Secured Overnight Financing Rate ("SOFR") Overnight Index Swap ("OIS") Rate as a Benchmark Interest Rate for Hedge Accounting Purposes:* On January 1, 2019, Eastman adopted this standard prospectively for qualifying new or redesignated hedging relationships. Management does not expect the adoption of this standard will materially impact the Company's financial statements and related disclosures.

## NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

### Accounting Standards Issued But Not Adopted as of March 31, 2019

*ASU 2016-13 Financial Instruments - Credit Losses:* In June 2016, the Financial Accounting Standards Board ("FASB") issued this standard relating to credit losses. The amendments require a financial asset (including trade receivables) to be presented at the net amount expected to be collected through the use of allowances for credit losses valuation account. The income statement will reflect the measurement of credit losses for newly recognized financial assets, as well as the expected increases or decreases of expected credit losses that have taken place during the period. This standard is effective for annual reporting periods beginning after December 15, 2019, including interim periods within that reporting period and early adoption is permitted, including adoption in an interim period, beginning after December 15, 2018. In November 2018, the FASB issued amendment 2018-19 to clarify that receivables arising from operating leases are not within the scope of this sub-topic but instead, impairment of such operating lease receivables should be accounted for in accordance with *ASU 2016-02 Leases* above. The new standard application is mixed among the various elements that include modified retrospective and prospective transition methods. Management does not expect that changes in its accounting required by the new standard will materially impact the Company's financial statements and related disclosures.

*ASU 2018-13 Fair Value Measurement - Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement:* In August 2018, the FASB issued this update as a part of its disclosure framework project to improve the effectiveness of disclosures in the notes to financial statements. This standard is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. Early adoption was permitted upon issuance of this update and an entity is permitted to early adopt any removed or modified disclosures upon issuance of this update and delay adoption of the additional disclosures until the effective date. Certain disclosure amendments are to be applied prospectively for only the most recent interim or annual period presented, while other amendments are to be applied retrospectively to all periods presented. Management is currently evaluating implementation options and impact on the Company's related disclosures.

*ASU 2018-14 Retirement Benefits - Disclosure Framework - Changes to the Disclosure Requirements for Defined Benefit Plans:* In August 2018, the FASB issued this update as a part of its disclosure framework project to improve the effectiveness of disclosures in the notes to financial statements. This standard is effective for fiscal years ending after December 15, 2020 and early adoption is permitted. Upon adoption, this update is to be applied on a retrospective basis to all periods presented. Management is currently evaluating the impact on the Company's related disclosures.

*2018-18 Collaborative Arrangements - Clarifying the Interaction between Topic 808 (Collaborative Arrangements) and Topic 606 (Revenue from Contracts with Customers):* In November 2018, the FASB issued clarification in regards to which contracts are accounted for under Topic 808 and Topic 606 as well as alignment of guidance between the two pronouncements. This standard is effective for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years. Early adoption is permitted. Upon adoption, this update is to be applied retrospectively to the date of initial application of Topic 606. Management is currently evaluating the impact on the Company's financial statements and related disclosures.

*ASU 2019-01 Leases - Codification Improvements:* In March 2019, the FASB issued this update in response to stakeholder inquiries regarding transition to the new leasing standard. This standard is effective for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years. Early adoption is permitted. Upon adoption, this update is to be applied as of the adoption date and using the same transition methodology of *ASU 2016-02 Leases*. Management is currently evaluating the impact on the Company's financial statements and related disclosures.

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## NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

### 2. INVENTORIES

| (Dollars in millions) | March 31, 2019 | December 31, 2018 |
|---|---|---|
| Finished goods | $1,201 | $ 1,143 |
| Work in process | 260 | 262 |
| Raw materials and supplies | 572 | 515 |
| Total inventories at FIFO or average cost | 2,033 | 1,920 |
| Less: LIFO reserve | 329 | 337 |
| Total inventories | $1,704 | $ 1,583 |

Inventories valued on the last-in, first-out ("LIFO") method were approximately 55 percent of total inventories at both March 31, 2019 and December 31, 2018.

### 3. PAYABLES AND OTHER CURRENT LIABILITIES

| (Dollars in millions) | March 31, 2019 | December 31, 2018 |
|---|---|---|
| Trade creditors | $857 | $ 914 |
| Accrued payroll and variable compensation | 115 | 197 |
| Accrued taxes | 67 | 94 |
| Other | 451 | 403 |
| Total payables and other current liabilities | $1,490 | $ 1,608 |

"Other" consists primarily of accruals for post-employment obligations, dividends payable, interest payable, the current portion of operating lease liabilities, the current portion of environmental liabilities, and miscellaneous accruals.

### 4. INCOME TAXES

| | First Quarter | | | |
|---|---|---|---|---|
| (Dollars in millions) | 2019 | | 2018 | |
| | $ | % | $ | % |
| Provision for income taxes and tax rate | $55 | 21% | $60 | 17% |

The first quarter 2019 effective tax rate includes adjustments to the tax provision to reflect planned amendments to and expected finalization of a prior year's income tax return in a foreign jurisdiction. The first quarter 2018 effective tax rate included the impact of the U.S. corporate tax rate reduction resulting from the Tax Reform Act.

The U.S. Department of Treasury has issued a number of proposed regulations related to implementation of the provisions of the Tax Reform Act and certain states may issue clarifying guidance regarding state income tax conformity to the current federal tax code. Finalization of these regulations in 2019 or future periods may result in changes in the period of enactment to the amounts currently reported in the Unaudited Consolidated Statements of Financial Position.

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## NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

## 5. BORROWINGS

| (Dollars in millions) | March 31, 2019 | December 31, 2018 |
|---|---|---|
| Borrowings consisted of: | | |
| 2.7% notes due January 2020 | $250 | $ 250 |
| 4.5% notes due January 2021 | 185 | 185 |
| 3.5% notes due December 2021 | 298 | 297 |
| 3.6% notes due August 2022 | 739 | 739 |
| 1.50% notes due May 2023 (1) | 840 | 855 |
| 7 1/4% debentures due January 2024 | 197 | 197 |
| 7 5/8% debentures due June 2024 | 43 | 43 |
| 3.8% notes due March 2025 | 692 | 691 |
| 1.875% notes due November 2026 (1) | 556 | 566 |
| 7.60% debentures due February 2027 | 195 | 195 |
| 4.5% notes due December 2028 | 492 | 492 |
| 4.8% notes due September 2042 | 493 | 493 |
| 4.65% notes due October 2044 | 872 | 872 |
| Commercial paper and short-term borrowings | 612 | 243 |
| Credit facilities borrowings | — | 50 |
| Total borrowings | 6,464 | 6,168 |
| Borrowings due within one year | 862 | 243 |
| Long-term borrowings | $5,602 | $ 5,925 |

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

### Credit Facilities and Commercial Paper Borrowings

The Company has access to a $1.50 billion revolving credit agreement (the "Credit Facility") expiring October 2023. Borrowings under the Credit Facility are subject to interest at varying spreads above quoted market rates and a commitment fee is paid on the total unused commitment. The Credit Facility provides available liquidity for general corporate purposes and supports commercial paper borrowings. Commercial paper borrowings are classified as short-term. At March 31, 2019 and December 31, 2018, the Company had no outstanding borrowings under the Credit Facility. At March 31, 2019, the Company's commercial paper borrowings were $502 million with a weighted average interest rate of 2.76 percent. At December 31, 2018, the Company's commercial paper borrowings were $130 million with a weighted average interest rate of 2.91 percent.

The Company has access to up to $250 million under an accounts receivable securitization agreement (the "A/R Facility") that expires April 2020. Eastman Chemical Financial Corporation ("ECFC"), a subsidiary of the Company, has an agreement to sell interests in trade receivables under the A/R Facility to a third party purchaser. Third party creditors of ECFC have first priority claims on the assets of ECFC before those assets would be available to satisfy the Company's general obligations. Borrowings under the A/R Facility are subject to interest rates based on a spread over the lender's borrowing costs, and ECFC pays a fee to maintain availability of the A/R Facility. In first quarter 2019, $125 million available under the A/R Facility was borrowed and $175 million repaid using available cash. At

March 31, 2019, the Company had no borrowings outstanding under the A/R Facility. At December 31, 2018, the Company's borrowings under the A/R Facility were $50 million with an interest rate of 3.39 percent.

## NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

The Company has access to borrowings of up to €150 million ($169 million) under a receivables facility based on the discounted value of selected customer accounts receivable. This facility expires December 2020 and renews for another one year period if not terminated with 90 days notice by either party. These arrangements include receivables in the United States, Belgium, and Finland, and are subject to various eligibility requirements. Borrowings under this facility are subject to interest at an agreed spread above LIBOR and EURIBOR plus administration and insurance fees and are classified as short-term. At March 31, 2019, the Company's outstanding borrowings under this facility were $110 million with a weighted average interest rate of 1.48 percent. At December 31, 2018, the Company's amount of outstanding borrowings under this facility were $112 million with a weighted average interest rate of 1.70 percent.

The Credit and A/R Facilities and other borrowing agreements contain customary covenants and events of default, some of which require the Company to maintain certain financial ratios that determine the amounts available and terms of borrowings. The Company was in compliance with all covenants at both March 31, 2019 and December 31, 2018.

### Fair Value of Borrowings

Eastman has classified its total borrowings at March 31, 2019 and December 31, 2018 under the fair value hierarchy as described in the accounting policies in Note 1, "Significant Accounting Policies", to the consolidated financial statements in Part II, Item 8 of the Company's 2018 Annual Report on Form 10-K. The fair value for fixed-rate debt securities is based on quoted market prices for the same or similar debt instruments and is classified as Level 2. The fair value for the Company's other borrowings primarily under the commercial paper and receivables facility equals the carrying value and is classified as Level 2. At March 31, 2019 and December 31, 2018, the fair value of total borrowings was $6.720 billion and $6.216 billion, respectively. The Company had no borrowings classified as Level 3 as of March 31, 2019 and December 31, 2018.

## 6. DERIVATIVE AND NON-DERIVATIVE FINANCIAL INSTRUMENTS

### Overview of Hedging Programs

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

For further information on hedging programs, see Note 9, "Derivative and Non-Derivative Financial Instruments", to the consolidated financial statements in Part II, Item 8 of the Company's 2018 Annual Report on Form 10-K.

### Cash Flow Hedges

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

**Fair Value Hedges**

Fair value hedges are defined as derivative or non-derivative instruments designated and used to hedge the exposure to changes in the fair value of an asset or a liability or an identified portion thereof that is attributable to a particular risk. The derivative instruments that are designated and qualify as fair value hedges are recognized on the balance sheet at fair value and the changes in fair value of these hedging instruments are offset in part or in whole by corresponding changes in the anticipated fair value of the underlying exposures being hedged. The net of the change in the hedge instrument and item being hedged for qualifying fair value hedges is recognized in earnings in the same period or periods during which the hedged transaction affects earnings.

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## NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

### Net Investment Hedges

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

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

In January 2018, Eastman entered into fixed-to-fixed cross-currency swaps and designated these swaps to hedge a portion of its net investment in a euro functional currency denominated subsidiary against foreign currency fluctuations. These contracts involve the exchange of fixed U.S. dollars with fixed euro interest payments periodically over the life of the contracts and an exchange of the notional amounts at maturity. The fixed-to-fixed cross-currency swaps include €150 million ($180 million) maturing January 2021 and €266 million ($320 million) maturing August 2022.

In October 2018, Eastman entered into fixed-to-fixed cross-currency swaps and designated these swaps to hedge a portion of its net investment in a euro functional currency denominated subsidiary against foreign currency fluctuations. These contracts involve the exchange of fixed U.S. dollars with fixed euro interest payments periodically over the life of the contracts and an exchange of the notional amounts at maturity. The fixed-to-fixed cross-currency swaps include €165 million ($190 million) maturing January 2024, €104 million ($120 million) maturing March 2025, and €165 million ($190 million) maturing February 2027.

March 31, 2019 and December 31, 2018

| *Notional Outstanding* | **March 31, 2019** | **December 31, 2018** |
|---|---|---|
| Derivatives designated as cash flow hedges: | | |
| Foreign Exchange Forward and Option Contracts (in millions) | | |
| EUR/USD (in EUR) | €203 | €263 |
| Commodity Forward and Collar Contracts | | |
| Feedstock (in million barrels) | 4 | 5 |
| Energy (in million british thermal units) | 31 | 40 |

| | | |
|---|---|---|
| Derivatives designated as fair value hedges: | | |
| Fixed-for-floating interest rate swaps (in millions) | $75 | $75 |
| | | |
| Derivatives designated as net investment hedges: | | |
| Cross-currency interest rate swaps (in millions) | | |
| EUR/USD (in EUR) | €851 | €851 |
| | | |
| Non-derivatives designated as net investment hedges: | | |
| Foreign Currency Net Investment Hedges (in millions) | | |
| EUR/USD (in EUR) | €1,242 | €1,241 |

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## NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Fair Value Measurements

All of the Company's derivative assets and liabilities are currently classified as Level 2. Level 2 fair value is based on estimates using standard pricing models. These standard pricing models use inputs that are derived from or corroborated by observable market data such as interest rate yield curves and currency spot and forward rates. The fair value of commodity contracts is derived using forward curves supplied by an industry recognized and unrelated third party. In addition, on an ongoing basis, the Company tests a subset of its valuations against valuations received from transaction counterparties to validate the accuracy of its standard pricing models. Counterparties to these derivative contracts are highly rated financial institutions which the Company believes carry minimal risk of nonperformance, and the Company diversifies its positions among such counterparties to reduce its exposure to counterparty risk and credit losses. The Company monitors the creditworthiness of its counterparties on an ongoing basis. The Company did not recognize a credit loss during first quarter 2019 and 2018.

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

The Company has elected to present derivative contracts on a gross basis within the Unaudited Consolidated Statements of Financial Position. The following table presents the financial assets and liabilities valued on a recurring and gross basis and includes where the financial assets and liabilities are located within the Unaudited Consolidated Statements of Financial Position as of March 31, 2019 and December 31, 2018.

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

(Dollars in millions)

| **Derivative Type** | **Statements of Financial Position Classification** | **March 31, 2019 Level 2** | **December 31, 2018 Level 2** |
|---|---|---|---|
| Derivatives designated as cash flow hedges: | | | |
| Commodity contracts | Other current assets | $ 3 | $ 4 |
| Commodity contracts | Other noncurrent assets | 1 | — |
| Foreign exchange contracts | Other current assets | 16 | 15 |
| Foreign exchange contracts | Other noncurrent assets | 5 | 4 |
| | | | |
| Derivatives designated as fair value hedges: | | | |
| Fixed-for-floating interest rate swap | Other current assets | — | 1 |
| | | | |
| Derivatives designated as net investment hedges: | | | |
| Cross-currency interest rate swaps | Other noncurrent assets | 52 | 26 |
| Total Derivative Assets | | $ 77 | $ 50 |
| | | | |
| Derivatives designated as cash flow hedges: | | | |
| Commodity contracts | Payables and other current liabilities | $ 11 | $ 24 |
| Commodity contracts | Other long-term liabilities | 4 | 5 |

| | | | |
|---|---|---|---|
| Derivatives designated as fair value hedges: | | | |
| Fixed-for-floating interest rate swap | Long-term borrowings | 3 | 4 |
| Total Derivative Liabilities | | $ 18 | $ 33 |
| Total Net Derivative Assets (Liabilities) | | $ 59 | $ 17 |

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## NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

In addition to the fair value associated with derivative instruments designated as cash flow hedges, fair value hedges, and net investment hedges noted in the table above, the Company had a carrying value of $1.4 billion associated with non-derivative instruments designated as foreign currency net investment hedges at both March 31, 2019 and December 31, 2018. The designated foreign currency-denominated borrowings are included as part of "Long-term borrowings" within the Unaudited Consolidated Statements of Financial Position.

For additional fair value measurement information, see Note 1, "Significant Accounting Policies", and Note 9, "Derivative and Non-Derivative Financial Instruments", to the consolidated financial statements in Part II, Item 8 of the Company's 2018 Annual Report on Form 10-K.

As of March 31, 2019 and December 31, 2018, the following amounts were included on the Unaudited Consolidated Statements of Financial Position related to cumulative basis adjustments for fair value hedges.

| (Dollars in millions) | **Carrying amount of the hedged liabilities** | | **Cumulative amount of fair value hedging loss adjustment included in the carrying amount of the hedged liability** | |
|---|---|---|---|---|
| **Line item in the Unaudited Consolidated Statements of Financial Position in which the hedged item is included** | **March 31, 2019** | **December 31, 2018** | **March 31, 2019** | **December 31, 2018** |
| Long-term borrowings [1] | $759 | $ 759 | $(10) | $ (12) |

(1) At both March 31, 2019 and December 31, 2018, the cumulative amount of fair value hedging loss adjustment remaining for hedged liabilities for which hedge accounting has been discontinued was $7 million.

The following table presents the effect of the Company's hedging instruments on "Other comprehensive income (loss), net of tax" ("OCI") and financial performance for first quarter 2019 and 2018.

| (Dollars in millions) | **Change in amount of after tax gain (loss) recognized in OCI on derivatives** | | **Pre-tax amount of gain (loss) reclassified from OCI into earnings** | |
|---|---|---|---|---|
| | **First Quarter** | | **First Quarter** | |
| **Hedging Relationships** | **2019** | **2018** | **2019** | **2018** |
| Derivatives in cash flow hedging relationships: | | | | |
| Commodity contracts | $ 7 | $ (11) | $ (3) | $ (2) |
| Foreign exchange contracts | 1 | (13) | 6 | 3 |
| Forward starting interest rate and treasury lock swap contracts | 1 | 1 | (1) | (1) |
| Non-derivatives in net investment hedging relationships (pre-tax): | | | | |
| Net investment hedges | 26 | (42) | — | — |

| | | | | |
|---|---|---|---|---|
| Derivatives in net investment hedging relationships (pre-tax): | | | | |
| Cross-currency interest rate swaps | 19 | (11 ) | — | — |
| Cross-currency interest rate swaps excluded component | 6 | (11 ) | — | — |

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## NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

The following table presents the effect of fair value and cash flow hedge accounting on the Unaudited Consolidated Statements of Earnings, Comprehensive Income and Retained Earnings for first quarter 2019 and 2018.

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

| | **First quarter 2019** | | | **2018** | | |
|---|---|---|---|---|---|---|
| (Dollars in millions) | **Sales** | **Cost of Sales** | **Net Interest Expense** | **Sales** | **Cost of Sales** | **Net Interest Expense** |
| Total amounts of income and expense line items presented in the Unaudited Consolidated Statements of Earnings, Comprehensive Income and Retained Earnings in which the effects of fair value or cash flow hedges are recognized | $2,380 | $1,806 | $ 56 | $2,607 | $2,026 | $ 59 |
| The effects of fair value and cash flow hedging: | | | | | | |
| Gain or (loss) on cash flow hedging relationships: | | | | | | |
| Interest contracts (forward starting interest rate and treasury lock swap contracts): | | | | | | |
| Amount reclassified from AOCI into earnings | | | (1) | | | (1) |
| Commodity Contracts: | | | | | | |
| Amount reclassified from AOCI into earnings | | (3) | | | (2) | |
| Foreign Exchange Contracts: | | | | | | |
| Amount reclassified from AOCI into earnings | 6 | | | 3 | | |

The Company enters into foreign exchange derivatives denominated in multiple currencies which are transacted and settled in the same quarter. These derivatives are not designated as hedges due to the short-term nature and the gains or losses on these derivatives are marked-to-market in line item "Other (income) charges, net" of the Unaudited Consolidated Statements of Earnings, Comprehensive Income and Retained Earnings. The Company recognized a net loss of $3 million and $8 million during first quarter 2019 and 2018, respectively, for these derivatives.

Pre-tax monetized positions and mark-to-market gains and losses from raw materials and energy, currency, and certain interest rate hedges that were included in AOCI included net losses of $49 million and $112 million at March 31, 2019 and December 31, 2018, respectively. Losses in AOCI decreased March 31, 2019 compared to December 31, 2018 primarily as a result of a decrease in foreign currency exchange rates associated with the euro. If realized, approximately $3 million in pre-tax losses, as of March 31, 2019, would be reclassified into earnings during the next 12 months.

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## NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

## 7. RETIREMENT PLANS

### Defined Benefit Pension Plans and Other Postretirement Benefit Plans

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

For additional information regarding retirement plans, see Note 10, "Retirement Plans", to the consolidated financial statements in Part II, Item 8 of the Company's 2018 Annual Report on Form 10-K.

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

| | First Quarter | | | | | |
|---|---|---|---|---|---|---|
| | Pension Plans | | | | Other Postretirement Benefit Plans | |
| | 2019 | | 2018 | | 2019 | 2018 |
| (Dollars in millions) | U.S. | Non-U.S. | U.S. | Non-U.S. | | |
| Service cost | $7 | $ 3 | $9 | $ 4 | $ — | $ — |
| Interest cost | 19 | 5 | 17 | 5 | 6 | 6 |
| Expected return on assets | (32 ) | (8 ) | (37 ) | (9 ) | (1 ) | (2 ) |
| Amortization of: | | | | | | |
| Prior service credit, net | — | — | — | — | (10 ) | (10 ) |
| Net periodic benefit (credit) cost | $(6 ) | $ — | $(11 ) | $ — | $ (5 ) | $ (6 ) |

## 8. LEASES AND OFF BALANCE SHEET ITEMS

### Leases

On January 1, 2019, Eastman adopted *ASU 2016-02 Leases* and related releases under the modified retrospective optional transition method such that prior period financial statements have not been adjusted to reflect the impact of the new standard. The new standard establishes two types of leases: finance and operating. Both types of leases have associated right-to-use assets and lease liabilities that have been valued at the present value of the lease payments and recognized on the Unaudited Consolidated Statement of Financial Position which did not result in an impact to retained earnings.

Upon adoption, the Company elected the practical expedient package wherein: expired or existing contracts were not reassessed as to whether these contracts are or contained a lease; expired or existing contracts were not reassessed for operating or financing classification; and initial direct costs for existing leases were not reassessed. The Company also elected the practical expedient not to assess whether existing or expired land easements that were not previously accounted for under the prior standard are or contain a lease. Lastly, the Company elected the accounting policy not to apply the recognition and measurement requirements to short-term leases with a term of 12 months or less and do not include a bargain purchase option.

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## NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

The Company has operating leases, as a lessee, with customary terms that do not include: significant variable lease payments; significant reasonably certain extensions or options required to be included in the lease term; restrictions; or other covenants for real property, rolling stock, and machinery and equipment. Real property leases primarily consist of office space and rolling stock leases primarily for railcars and fleet vehicles. At March 31, 2019, operating right-to-use assets of $219 million are included as a part of "Other noncurrent assets" in the Unaudited Consolidated Statement of Financial Position and includes $9 million of assets previously classified as lease intangibles. Operating lease liabilities are included as a part of "Payables and other current liabilities" and "Other long-term liabilities" in the Unaudited Consolidated Statement of Financial Position. There have been no material changes to the future minimum lease payments as of December 31, 2018 as accounted for under the previous lease standard, for these obligations, see Note 11, "Commitments and Off Balance Sheet Arrangements", to the consolidated financial statements in Part II, Item 8 of the Company's 2018 Annual Report on Form 10-K. As of March 31, 2019, reconciliation of minimum lease payments and operating lease liabilities is provided below:

| (Dollars in millions) | **Operating lease liabilities** |
|---|---|
| Remainder of 2019 | $ 50 |
| 2020 | 55 |
| 2021 | 43 |
| 2022 | 32 |
| 2023 | 21 |
| 2024 and beyond | 35 |
| Total minimum lease payments | 236 |
| Less: amounts of lease payments representing interest | 26 |
| Present value of future minimum lease payments | 210 |
| Less: current obligations under leases | 57 |
| Long-term lease obligations | $ 153 |

The Company has operating leases, primarily leases for railcars, with terms that require the Company to guarantee a portion of the residual value of the leased assets upon termination of the lease that will expire beginning in second quarter 2019. Residual guarantee payments that become probable and estimable are recognized as rent expense over the remaining life of the applicable lease. Management's current expectation is that the likelihood of material residual guarantee payments is remote.

**NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**

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

| (Dollars in millions) | First Quarter 2019 |
|---|---|
| Lease costs: | |
| Operating lease costs | $ 15 |
| Short-term lease costs | 11 |
| Total | $ 26 |
| | |
| Other operating lease information: | |
| Cash paid for amounts included in the measurement of lease liabilities | $ 17 |
| Right-to-use assets obtained in exchange for new lease liabilities | $ 11 |
| Weighted-average remaining lease term, in years | 5 |
| Weighted-average discount rate | 4.2 % |

**Off Balance Sheet Items**

Supplier Purchase Obligations

The Company had various purchase obligations at March 31, 2019, totaling approximately $2.8 billion over a period of approximately 30 years for materials, supplies, and energy incident to the ordinary conduct of business.

Guarantees

Guarantees and claims also arise during the ordinary course of business from relationships with customers, suppliers, joint venture partners, and other parties when the Company undertakes an obligation to guarantee the performance of others if specified triggering events occur. Non-performance under a contract could trigger an obligation of the Company. The Company's current other guarantees include guarantees relating to intellectual property, environmental matters, and other indemnifications and have arisen through the normal course of business. The ultimate effect on future financial results is not subject to reasonable estimation because considerable uncertainty exists as to the final outcome of these claims, if they were to occur. These other guarantees have terms up to 30 years with maximum potential future payments of approximately $30 million in the aggregate, with none of these guarantees being individually significant to the Company's operating results, financial position, or liquidity. Management's current expectation is that future payment or performance related to non-performance under other guarantees is remote.

Accounts Receivable Purchase Agreements

The Company has uncommitted accounts receivable purchase agreements under which entire invoices may be sold, without recourse, to third-party financial institutions. Under these programs, the Company sells the invoices at face value, less a transaction fee, which substantially equals the carrying value and fair value with no gain or loss recognized and no credit loss exposure is retained. Available capacity under these programs, which the Company uses as a source of working capital funding, is dependent on the level of accounts receivable eligible to be sold into these programs and the financial institutions' willingness to purchase such receivables. In addition, certain of these agreements also require that the Company continue to service, administer and collect the sold accounts receivable at market rates. The total amount of receivables sold in first quarter 2019 and 2018 were $101 million and $39 million, respectively.

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## NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

## 9. ENVIRONMENTAL MATTERS AND ASSET RETIREMENT OBLIGATIONS

Certain Eastman manufacturing facilities generate hazardous and nonhazardous wastes, the treatment, storage, transportation, and disposal of which are regulated by various governmental agencies. In connection with the cleanup of various hazardous waste sites, the Company, along with many other entities, has been designated a potentially responsible party ("PRP") by the U.S. Environmental Protection Agency under the Comprehensive Environmental Response, Compensation and Liability Act, which potentially subjects PRPs to joint and several liability for certain cleanup costs. In addition, the Company will incur costs for environmental remediation and closure and post-closure under the federal Resource Conservation and Recovery Act. Reserves for environmental contingencies have been established in accordance with Eastman's policies described in Note 1, "Significant Accounting Policies", to the consolidated financial statements in Part II, Item 8 of the Company's 2018 Annual Report on Form 10-K. The resolution of uncertainties related to environmental matters may have a material adverse effect on the Company's consolidated results of operations in the period recognized. However, because of the availability of legal defenses, the Company's preliminary assessment of actions that may be required, and the extended period of time that the obligations are expected to be satisfied, management does not believe that the Company's liability for these environmental matters, individually or in the aggregate, will have a material adverse effect on the Company's future liquidity or financial condition. The Company's total reserve for environmental loss contingencies was $294 million and $296 million at March 31, 2019 and December 31, 2018, respectively.

### Environmental Remediation and Environmental Asset Retirement Obligations

The Company's total environmental reserve that management believes to be probable and reasonably estimable for environmental contingencies, including remediation costs and asset retirement obligations, is included as part of "Payables and other current liabilities" and "Other long-term liabilities" in the Unaudited Consolidated Statements of Financial Position as follows:

| (Dollars in millions) | March 31, 2019 | December 31, 2018 |
|---|---|---|
| Environmental contingent liabilities, current | $ 25 | $ 25 |
| Environmental contingent liabilities, long-term | 269 | 271 |
| Total | $ 294 | $ 296 |

### Environmental Remediation

Estimated future environmental expenditures for undiscounted remediation costs ranged from the best estimate or minimum of $269 million to the maximum of $507 million at March 31, 2019 and from the best estimate or minimum of $271 million to the maximum of $508 million at December 31, 2018. The best estimate or minimum estimated future environmental expenditures are considered to be probable and reasonably estimable and include the amounts accrued at both March 31, 2019 and December 31, 2018.

Reserves for environmental remediation include liabilities expected to be paid within approximately 30 years. The amounts charged to pre-tax earnings for environmental remediation and related charges are included within "Cost of sales" in the Unaudited Consolidated Statements of Earnings, Comprehensive Income and Retained Earnings. Changes in the reserves for environmental remediation liabilities during first three months 2019 are summarized below:

| (Dollars in millions) | Environmental Remediation Liabilities |
|---|---|

| | | |
|---|---|---|
| Balance at December 31, 2018 | $ | 271 |
| Changes in estimates recognized in earnings and other | 1 | |
| Cash reductions | (3 | ) |
| Balance at March 31, 2019 | $ | 269 |

## NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

### Environmental Asset Retirement Obligations

An asset retirement obligation is an obligation for the retirement of a tangible long-lived asset that is incurred upon the acquisition, construction, development, or normal operation of that long-lived asset. The Company recognizes asset retirement obligations in the period in which they are incurred if a reasonable estimate of fair value can be made. The asset retirement obligations are discounted to expected present value and subsequently adjusted for changes in fair value. The associated estimated asset retirement costs are capitalized as part of the carrying value of the long-lived assets and depreciated over their useful life. Environmental asset retirement obligations consist primarily of closure and post-closure costs. For sites that have environmental asset retirement obligations, the best estimate recognized to date for these environmental asset retirement obligation costs was $25 million at both March 31, 2019 and December 31, 2018.

### Non-Environmental Asset Retirement Obligations

The Company has contractual asset retirement obligations not associated with environmental liabilities. Eastman's non-environmental asset retirement obligations are primarily associated with the future closure of leased manufacturing assets at Pace, Florida and Oulu, Finland. These recognized non-environmental asset retirement obligations were $46 million at both March 31, 2019 and December 31, 2018, and is included as part of "Other long-term liabilities" in the Unaudited Consolidated Statements of Financial Position.

## 10. LEGAL MATTERS

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

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## NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

## 11. STOCKHOLDERS' EQUITY

A reconciliation of the changes in stockholders' equity for first three months 2019 and 2018 is provided below:

| (Dollars in millions) | Common Stock at Par Value | Additional Paid-in Capital | Retained Earnings | Accumulated Other Comprehensive Income (Loss) | Treasury Stock at Cost | Total Eastman Stockholders' Equity | Noncontrolling Interest | Total Equity |
|---|---|---|---|---|---|---|---|---|
| Balance at December 31, 2018 | $ 2 | $ 2,048 | $ 7,573 | $ (245) | $ (3,575) | $ 5,803 | $ 75 | $ 5,878 |
| Cumulative Effect of Adoption of New Accounting Standards [1] | — | — | (20) | 20 | — | — | — | — |
| Net Earnings | — | — | 209 | — | — | 209 | — | 209 |
| Cash Dividends Declared [2] ($0.62 per share) | — | — | (87) | — | — | (87) | — | (87) |
| Other Comprehensive Income | — | — | — | 31 | — | 31 | — | 31 |
| Share-Based Compensation Expense [3] | — | 18 | — | — | — | 18 | — | 18 |
| Stock Option Exercises | — | 4 | — | — | — | 4 | — | 4 |
| Other [4] | — | (10) | — | — | — | (10) | 1 | (9) |
| Share Repurchases | — | — | — | — | (125) | (125) | — | (125) |
| Balance at March 31, 2019 | $ 2 | $ 2,060 | $ 7,675 | $ (194) | $ (3,700) | $ 5,843 | $ 76 | $ 5,919 |

| (Dollars in millions) | Common Stock at Par Value | Additional Paid-in Capital | Retained Earnings | Accumulated Other Comprehensive Income (Loss) | Treasury Stock at Cost | Total Eastman Stockholders' Equity | Noncontrolling Interest | Total Equity |
|---|---|---|---|---|---|---|---|---|
| Balance at December 31, 2017 | $ 2 | $ 1,983 | $ 6,802 | $ (209) | $ (3,175) | $ 5,403 | $ 77 | $ 5,480 |
| Cumulative Effect of Adoption of New Accounting Standards [5] | — | — | 16 | — | — | 16 | — | 16 |
| Net Earnings | — | — | 290 | — | — | 290 | — | 290 |
| Cash Dividends Declared [2] ($0.56 per share) | — | — | (82) | — | — | (82) | — | (82) |
| Other Comprehensive Loss | — | — | — | (3) | — | (3) | — | (3) |
| Share-Based Compensation Expense [3] | — | 24 | — | — | — | 24 | — | 24 |
| Stock Option Exercises | — | 13 | — | — | — | 13 | — | 13 |
| Other [4] | — | (16) | — | — | — | (16) | — | (16) |
| Share Repurchases | — | — | — | — | (100) | (100) | — | (100) |
| Distributions to Noncontrolling Interest | — | — | — | — | — | — | (2) | (2) |
| Balance at March 31, 2018 | $ 2 | $ 2,004 | $ 7,026 | $ (212) | $ (3,275) | $ 5,545 | $ 75 | $ 5,620 |

(1) On January 1, 2019, the Company adopted a new accounting standard for reporting comprehensive income, which resulted in a reclassification of stranded tax effects from the Tax Reform Act from AOCI to retained earnings. See Note 1, "Significant Accounting Policies", for additional information.

(2) Cash dividends declared includes cash dividends paid and dividends declared but unpaid.

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

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

(5) On January 1, 2018, the Company adopted new accounting standards for revenue recognition, income taxes, and derivatives and hedging, which resulted in adjustments to beginning retained earnings. See Note 1, "Significant Accounting Policies", to the consolidated financial statements in Part II, Item 8 of the Company's 2018 Annual Report on Form 10-K for specific amounts related to each standard.

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## NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

**Accumulated Other Comprehensive Income (Loss), Net of Tax**

| (Dollars in millions) | Cumulative Translation Adjustment | Benefit Plans Unrecognized Prior Service Credits | Unrealized Gains (Losses) on Derivative Instruments | Unrealized Losses on Investments | Accumulated Other Comprehensive Income (Loss) |
|---|---|---|---|---|---|
| Balance at December 31, 2017 | $ (296) | $ 136 | $ (48) | $ (1) | $ (209) |
| Period change | (13) | (30) | 7 | — | (36) |
| Balance at December 31, 2018 | (309) | 106 | (41) | (1) | (245) |
| Period change [(1)] | 30 | 22 | (1) | — | 51 |
| Balance at March 31, 2019 | $ (279) | $ 128 | $ (42) | $ (1) | $ (194) |

(1) Benefit plans unrecognized prior service credits includes $29 million reclassification of stranded tax expense from AOCI to retained earnings and unrealized gains (losses) on derivative instruments includes $9 million reclassification of stranded tax benefit from AOCI to retained earnings. See Note 1, "Significant Accounting Policies", for additional information.

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

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

| | First Quarter | | | |
|---|---|---|---|---|
| | 2019 | | 2018 | |
| (Dollars in millions) | Before Tax | Net of Tax | Before Tax | Net of Tax |
| Other comprehensive income (loss) | | | | |
| Change in cumulative translation adjustment | $30 | $30 | $27 | $27 |
| Defined benefit pension and other postretirement benefit plans: | | | | |
| Amortization of unrecognized prior service credits | (10) | (7) | (10) | (7) |
| Derivatives and hedging: | | | | |
| Unrealized gain (loss) during period | 13 | 10 | (31) | (23) |
| Reclassification adjustment for (gains) losses included in net income, net | (3) | (2) | — | — |
| Total other comprehensive income (loss) | $30 | $31 | $(14) | $(3) |

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## NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

### 12. EARNINGS AND DIVIDENDS PER SHARE

The following table sets forth the computation of basic and diluted earnings per share ("EPS"):

| (In millions, except per share amounts) | First Quarter 2019 | 2018 |
|---|---|---|
| Numerator | | |
| Earnings attributable to Eastman, net of tax | $209 | $290 |
| | | |
| Denominator | | |
| Weighted average shares used for basic EPS | 139.0 | 142.8 |
| Dilutive effect of stock options and other awards | 1.1 | 2.0 |
| Weighted average shares used for diluted EPS | 140.1 | 144.8 |
| | | |
| (Calculated using whole dollars and shares) | | |
| EPS | | |
| Basic | $1.50 | $2.03 |
| Diluted | $1.49 | $2.00 |

Shares underlying stock options excluded from the first quarter 2019 and 2018 calculations of diluted EPS were 2,261,873 and 407,573, respectively, because the market value of exercises of these options were less than the cash proceeds that would be received from these exercises. First quarter 2019 and 2018 reflect the impact of share repurchases of 1,582,076 and 994,235, respectively.

The Company declared cash dividends of $0.62 and $0.56 per share in first quarter 2019 and 2018, respectively.

### 13. ASSET IMPAIRMENTS AND RESTRUCTURING CHARGES, NET

| (Dollars in millions) | First Quarter 2019 | 2018 |
|---|---|---|
| Severance charges | $ 28 | $ 2 |
| Other restructuring costs | 4 | — |
| Total | $ 32 | $ 2 |

First quarter 2019 restructuring charges included $28 million for severance and related costs as part of business improvement and cost reduction initiatives and an additional $4 million restructuring charge related to a capital project in the Additives & Functional Products ("AFP") segment that was discontinued in 2016. In first quarter 2018, the Company recognized restructuring charges of $2 million for corporate severance.

**Changes in Reserves**

The following table summarizes the changes in asset impairments and restructuring charges and gains, the non-cash reductions attributable to asset impairments, and the cash reductions in restructuring reserves for severance costs and site closure costs paid in first three months 2019 and full year 2018:

| (Dollars in millions) | Balance at January 1, 2019 | Provision/ Adjustments | Non-cash Reductions/ Additions | Cash Reductions | Balance at March 31, 2019 |
|---|---|---|---|---|---|
| Severance costs | $ 6 | $ 28 | $ — | $ (2 ) | $ 32 |
| Other restructuring costs | 8 | 4 | 1 | (1 ) | 12 |
| Total | $ 14 | $ 32 | $ 1 | $ (3 ) | $ 44 |

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## NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

| (Dollars in millions) | Balance at January 1, 2018 | Provision/ Adjustments | Non-cash Reductions/ Additions | Cash Reductions | Balance at December 31, 2018 |
|---|---|---|---|---|---|
| Non-cash charges | $ — | $ 39 | $ (39) | $ — | $ — |
| Severance costs | 19 | 6 | 1 | (20) | 6 |
| Other restructuring costs | 10 | — | — | (2) | 8 |
| Total | $ 29 | $ 45 | $ (38) | $ (22) | $ 14 |

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

## 14. SHARE-BASED COMPENSATION AWARDS

The Company utilizes share-based awards under employee and non-employee director compensation programs. These share-based awards have included restricted and unrestricted stock, restricted stock units, stock options, and performance shares. In first quarter 2019 and 2018, $18 million and $24 million, respectively, of compensation expense before tax were recognized in "Selling, general and administrative expenses" in the Unaudited Consolidated Statements of Earnings, Comprehensive Income and Retained Earnings for all share-based awards of which $5 million in both periods was for stock option grants. The compensation expense is recognized over the substantive vesting period, which may be shorter time period than the stated vesting period for qualifying termination eligible employees as defined in the forms of award notice. For both first quarter 2019 and 2018, $3 million of stock option compensation expense was recognized due to qualifying termination eligibility preceding the requisite service period. The impact on first quarter 2019 and 2018 net earnings of $14 million and $18 million, respectively, is net of deferred tax expense related to share-based award compensation for each period.

### Stock Option Grants

In first quarter 2019 and 2018, the number of shares underlying stock options granted under the 2017 Omnibus Stock Compensation Plan was approximately 691,000 and 620,000, respectively. Options have an exercise price equal to the closing price of the Company's stock on the date of grant. The term of options is 10 years with vesting periods that vary up to three years. Vesting usually occurs ratably over the vesting period or at the end of the vesting period. The Company utilizes the Black Scholes Merton option valuation model which relies on certain assumptions to estimate an option's fair value.

The assumptions used in the determination of fair value for stock options granted in first quarter 2019 and 2018 are provided in the table below:

| | First Quarter | |
|---|---|---|
| **Assumptions** | **2019** | **2018** |
| Expected volatility rate | 19.61% | 19.03% |
| Expected dividend yield | 2.41% | 2.48% |
| Average risk-free interest rate | 2.56% | 2.61% |
| Expected term years | 5.7 | 5.1 |

The grant date exercise price and fair value of options granted during first quarter 2019 were $82.69 and $13.60, respectively, and first quarter 2018 were $104.21 and $15.90, respectively.

For options unvested at March 31, 2019, $8 million in compensation expense will be recognized over the next three years.

**Other Share-Based Compensation Awards**

In addition to stock option grants, the Company has awarded long-term performance share awards, restricted stock and restricted stock unit awards, and stock appreciation rights. The long-term performance share awards are based upon actual return on capital compared to a target return on capital and total stockholder return compared to a peer group ranking by total stockholder return over a three year performance period and pay out in unrestricted shares of common stock at the end of the performance period. The awards are valued using a Monte Carlo simulation-based model and vest pro-ratably over the three year performance period. The number of long-term performance share target awards during first quarter 2019 and 2018 for the

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## NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

2019-2021 and 2018-2020 periods were approximately 412,000 and 310,000, respectively. The target shares awarded are assumed to be 100 percent. At the end of the three-year performance period, the actual number of shares awarded can range from zero percent to 250 percent of the target shares based on the award notice. The number of restricted stock unit awards, which pay out in unrestricted shares of common stock at the end of the vesting and performance (if any) period, during first quarter 2019 and 2018 were approximately 116,000 and 135,000, respectively. The fair value of a restricted stock unit award is equal to the closing stock price of the Company's stock on the award date and normally vests over a period of three years. In first quarter 2019 and 2018, $13 million and $19 million, respectively, was recognized as compensation expense before tax for these other share-based awards and was included in the total compensation expense noted above for all share-based awards. The unrecognized compensation expense before tax for these same type awards at March 31, 2019 was approximately $105 million and will be recognized primarily over a period of three years.

For additional information regarding share-based compensation plans and awards, see Note 17, "Share-Based Compensation Plans and Awards", to the consolidated financial statements in Part II, Item 8 of the Company's 2018 Annual Report on Form 10-K.

### 15. OTHER (INCOME) CHARGES, NET

| (Dollars in millions) | First Quarter 2019 | 2018 |
|---|---|---|
| Currency transaction costs resulting from tax law changes and outside-U.S. entity reorganizations | $— | $8 |
| (Income) loss from equity investments and other investment (gains) losses, net | (3) | (5) |
| Coal gasification incident property insurance | — | (50) |
| Other, net | 1 | 1 |
| Other (income) charges, net | $(2) | $(46) |

### 16. SUPPLEMENTAL CASH FLOW INFORMATION

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

| (Dollars in millions) | First Three Months 2019 | 2018 |
|---|---|---|
| Other current assets | $2 | $(29) |
| Other noncurrent assets | 6 | 14 |
| Payables and other current liabilities | 59 | (14) |
| Long-term liabilities and equity | (14) | (1) |
| Total | $53 | $(30) |

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

### 17. SEGMENT INFORMATION

Eastman's products and operations are managed and reported in four operating segments: Additives & Functional Products ("AFP"), Advanced Materials ("AM"), Chemical Intermediates ("CI"), and Fibers. The economic factors that impact the nature, amount, timing, and uncertainty of revenue and cash flows vary between the Company's business operating segments and the geographical regions in which they serve. For disaggregation of revenue by major product lines and regions for each business operating segment, see Note 19, "Segment Information", to the consolidated financial statements in Part II, Item 8 of the Company's 2018 Annual Report on Form 10-K. For additional financial information for each segment, see Part I, Item 1, "Business - Business Segments", in the Company's 2018 Annual Report on Form 10-K.

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## NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

The timing of Eastman's customer billings does not always match the timing of revenue recognition. When the Company is entitled to bill a customer in advance of the recognition of revenue, a contract liability is recognized. When the Company is not entitled to bill a customer until a period after the related recognition of revenue, a contract asset is recognized. Contract assets represent the Company's right to consideration for the exchange of goods under a contract, but which are not yet billable to a customer for consignment inventory or pursuant to certain shipping terms. Contract liabilities were not material as of March 31, 2019 or December 31, 2018. Contract assets were $62 million as of March 31, 2019 and December 31, 2018 and are included as a component of "Miscellaneous receivables" in the Unaudited Consolidated Statements of Financial Position.

| (Dollars in millions) | First Quarter | |
|---|---|---|
| **Sales by Segment** | **2019** | **2018** |
| Additives & Functional Products | $855 | $939 |
| Advanced Materials | 657 | 693 |
| Chemical Intermediates | 655 | 730 |
| Fibers | 213 | 245 |
| Total Sales by Operating Segment | 2,380 | 2,607 |
| Other | — | — |
| Total Sales | $2,380 | $2,607 |

| (Dollars in millions) | First Quarter | |
|---|---|---|
| **Earnings Before Interest and Taxes by Segment** | **2019** | **2018** |
| Additives & Functional Products | $146 | $176 |
| Advanced Materials | 102 | 135 |
| Chemical Intermediates | 73 | 70 |
| Fibers | 42 | 43 |
| Total Earnings Before Interest and Taxes by Operating Segment | 363 | 424 |
| Other | | |
| Growth initiatives and businesses not allocated to operating segments | (27) | (26) |
| Pension and other postretirement benefits income (expense), net not allocated to operating segments | 12 | 21 |
| Asset impairments and restructuring charges, net | (28) | (2) |
| Other income (charges), net not allocated to operating segments | — | (8) |
| Total Earnings Before Interest and Taxes | $320 | $409 |

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## NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

| (Dollars in millions) | March 31, | December 31, |
|---|---|---|
| **Assets by Segment** [1] | **2019** | **2018** |
| Additives & Functional Products | $6,561 | $ 6,545 |
| Advanced Materials | 4,610 | 4,456 |
| Chemical Intermediates | 2,890 | 2,934 |
| Fibers | 1,050 | 978 |
| Total Assets by Operating Segment | 15,111 | 14,913 |
| Corporate Assets | 1,250 | 1,082 |
| Total Assets | $16,361 | $ 15,995 |

[1] Segment assets include accounts receivable, inventory, fixed assets, goodwill, and intangible assets.

| (Dollars in millions) | First Quarter | |
|---|---|---|
| **Sales by Customer Location** | **2019** | **2018** |
| United States and Canada | $1,000 | $1,100 |
| Asia Pacific | 553 | 642 |
| Europe, Middle East, and Africa | 689 | 727 |
| Latin America | 138 | 138 |
| Total Sales | $2,380 | $2,607 |

## ITEM 2. 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 of Eastman Chemical Company ("Eastman" or the "Company"), which have been prepared in accordance with accounting principles generally accepted in the United States ("GAAP"), and should be read in conjunction with the Company's audited consolidated financial statements, including related notes, and MD&A contained in the Company's 2018 Annual Report on Form 10-K, and the Company's unaudited consolidated financial statements, including related notes, included elsewhere in this Quarterly Report on Form 10-Q. All references to earnings per share ("EPS") contained in this report are diluted EPS unless otherwise noted.

## CRITICAL ACCOUNTING ESTIMATES

In preparing the consolidated financial statements in conformity with GAAP, management must make decisions which impact the reported amounts and the related disclosures. Such decisions include the selection of the appropriate accounting principles to be applied and assumptions on which to base estimates and judgments that affect the reported amounts of assets, liabilities, sales revenue and expenses, and related disclosure of contingent assets and liabilities. On an ongoing basis, Eastman evaluates its estimates, including those related to impairment of long-lived assets, environmental costs, pension and other postretirement benefits, litigation and contingent liabilities, and income taxes. The Company bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. Management believes the critical accounting estimates described in Part II, Item 7 of the Company's 2018 Annual Report on Form 10-K are the most important to the fair presentation of the Company's financial condition and results. These estimates require management's most significant judgments in the preparation of the Company's consolidated financial statements.

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

## NON-GAAP FINANCIAL MEASURES

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

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

### Company Use of Non-GAAP Financial Measures

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

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

- Non-core transactions, costs, and losses or gains relate to, among other things, cost reductions, growth and profitability improvement initiatives, and other events outside of core business operations, and have included asset impairments and restructuring charges and gains, costs of and related to acquisitions, gains and losses from and costs related to dispositions of businesses, financing transaction costs, and mark-to-market losses or gains for pension and other postretirement benefit plans.
- In first quarter 2018, the Company recognized unusual costs, net of insurance, of the disruption, repairs, and reconstruction of the Kingsport site's coal gasification operations area resulting from the previously reported October 4, 2017 explosion (the "coal gasification incident"). Management considers the coal gasification incident unusual because of the Company's operational and safety history and the magnitude of the unplanned disruption.
- In first quarter 2018, the Company recognized unusual costs resulting from the fourth quarter 2017 Tax Cuts and Jobs Act ("Tax Reform Act") and related outside-U.S. entity reorganizations as part of the transition to an international treasury services center. In first quarter 2019, the Company recognized an unusual net decrease to earnings from adjustments of the provision for income taxes resulting from tax law changes, primarily the Tax Reform Act, and the tax impact of the related outside-U.S. entity reorganizations. Management considers these actions and associated costs and income unusual because of the infrequent nature of such changes in tax law and resulting actions and the significant one-time impacts on earnings.

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

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

Adjusted Tax Rate and Provision for Income Taxes

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

Non-GAAP Cash Flow Measure

Eastman regularly evaluates and discloses to investors and securities analysts an alternative non-GAAP measure of "free cash flow", which management defines as cash provided by or used in operating activities, less the amount of net capital expenditures (typically the GAAP measure additions to properties and equipment, and in 2018 net of proceeds from property insurance). Such net capital expenditures are generally funded from available cash and, as such, management believes they should be considered in determining free cash flow. Management believes this is an appropriate metric to assess the Company's ability to fund priorities for uses of available cash. The priorities for cash after funding operations include payment of quarterly dividends, repayment of debt, funding targeted growth opportunities, and repurchasing shares. Management believes this metric is useful to investors and securities analysts in order to provide them with information similar to that used by management in evaluating financial performance and potential future cash available for various initiatives and assessing organizational performance in determining certain performance-based compensation and because management believes investors and securities analysts often use a similar measure of free cash flow to compare the results, and value, of comparable companies. In addition, Eastman may disclose to investors and securities analysts an alternative non-GAAP measure of "free cash flow yield", which management defines as annual free cash flow divided by the Company's market capitalization. Management believes this metric is useful to investors and securities analysts in comparing cash flow generation with that of peer and other companies.

**Non-GAAP Measures in this Quarterly Report**

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

- Asset impairments and restructuring charges, net.

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

- Costs from coal gasification incident in excess of insurance,
- Costs of currency transaction and professional fees resulting from fourth quarter 2017 tax law changes and related outside-U.S. entity reorganizations, and
- Adjustments to the provision for income taxes resulting from tax law changes, primarily the Tax Reform Act, and related outside-U.S. entity reorganizations.

As described above, the alternative non-GAAP measure of cash flow, free cash flow, is presented in this Quarterly Report.

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

Excluded Non-Core and Unusual Items and Adjustments to Provision for Income Taxes

| (Dollars in millions) | First Quarter 2019 | 2018 |
|---|---|---|
| Non-core item impacting earnings before interest and taxes: | | |
| Asset impairments and restructuring charges, net | $32 | $ 2 |
| Unusual items impacting earnings before interest and taxes: | | |
| Net coal gasification incident costs | — | 37 |
| Costs resulting from tax law changes and outside-U.S. entity reorganizations | — | 11 |
| Total non-core and unusual items impacting earnings before interest and taxes | 32 | 50 |
| Less: Items impacting provision for income taxes: | | |
| Tax effect of non-core and unusual items | 6 | 11 |
| Adjustments from tax law changes and outside-U.S. entity reorganizations | (10 ) | — |
| Interim adjustment to tax provision | (3 ) | 5 |
| Total items impacting provision for income taxes | (7 ) | 16 |
| Total items impacting net earnings attributable to Eastman | $39 | $ 34 |

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

- Gross profit,
- Selling, general and administrative expenses ("SG&A"),
- Asset impairments and restructuring charges, net,
- Other (income) charges, net,
- Earnings before interest and taxes ("EBIT"),
- Provision for income taxes,
- Net earnings attributable to Eastman,
- Diluted EPS, and
- Net cash used in operating activities.

**Other Non-GAAP Financial Measures**

Alternative Non-GAAP Cash Flow Measures

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

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

Alternative Non-GAAP Earnings Measures

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

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

## OVERVIEW

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

The Company generated sales revenue of $2.4 billion and $2.6 billion in first quarter 2019 and 2018, respectively. Sales revenue decreased $227 million as a result of decreases in all operating segments.

EBIT was $320 million and $409 million in first quarter 2019 and 2018, respectively. Excluding the non-core and unusual items identified in "Non-GAAP Financial Measures", adjusted EBIT was $352 million and $459 million in first quarter 2019 and 2018, respectively. Adjusted EBIT decreased as a result of decreases in all operating segments.

"Summary by Operating

Segment" in this MD&A.

Net earnings and EPS attributable to Eastman and adjusted net earnings and EPS attributable to Eastman were as follows:

| | First Quarter | | | |
|---|---|---|---|---|
| | 2019 | | 2018 | |
| (Dollars in millions, except EPS) | $ | EPS | $ | EPS |
| Net earnings attributable to Eastman | $209 | $1.49 | $290 | $2.00 |
| Total non-core and unusual items, net of tax (1)(2) | 36 | 0.25 | 39 | 0.27 |
| Interim adjustment to tax provision (1) | 3 | 0.03 | (5 ) | (0.04 ) |
| Adjusted net earnings | $248 | $1.77 | $324 | $2.23 |

(1) See "Results of Operations - Provision for Income Taxes" for adjusted provision for income taxes for first quarter 2019 and 2018.

(2) Provision for income taxes for non-core and unusual items are calculated using the tax rate for the jurisdiction where the gains are taxable and the expenses are deductible. See "Results of Operations - Net Earnings Attributable to Eastman and Diluted Earnings per Share" for the tax effected amount of non-core and unusual items.

In first three months 2019, $5 million net cash was used in operating activities compared to $35 million net cash used in first three months 2018. Free cash flow was $(111) million in first three months 2019 and $(113) million in first three months 2018.

As previously reported, in fourth quarter 2017 an explosion in the Kingsport site's coal gasification area disrupted manufacturing operations, primarily for the Fibers and CI segments which are significant internal users of cellulose and acetyl stream intermediates. First quarter 2018 included $37 million costs net of insurance of the disruption, repairs, and reconstruction of coal gasification operations, recognized in "Cost of sales" and "Other (income) charges, net" in the Unaudited Consolidated Statements of Earnings, Comprehensive Income and Retained Earnings.

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

## RESULTS OF OPERATIONS

### Sales

| | First Quarter | | | |
|---|---|---|---|---|
| | | | Change | |
| (Dollars in millions) | 2019 | 2018 | $ | % |
| Sales | $2,380 | $2,607 | $(227) | (9)% |
| Volume / product mix effect | | | (147 ) | (6)% |
| Price effect | | | (34 ) | (1)% |
| Exchange rate effect | | | (46 ) | (2)% |

Sales revenue decreased in all operating segments. Further discussion by operating segment is presented in "Summary by Operating Segment" in this MD&A.

### Gross Profit

| | First Quarter | | |
|---|---|---|---|
| (Dollars in millions) | 2019 | 2018 | Change |
| Gross profit | $574 | $581 | (1 )% |
| Net coal gasification incident costs | — | 87 | |
| Gross profit excluding unusual item | $574 | $668 | (14 )% |

Excluding net coal gasification incident costs, gross profit decreased in all operating segments. Further discussion by operating segment is presented in "Summary by Operating Segment" in this MD&A.

### Selling, General and Administrative Expenses

| | First Quarter | | |
|---|---|---|---|
| (Dollars in millions) | 2019 | 2018 | Change |
| Selling, general and administrative expenses | $187 | $190 | (2 )% |
| Costs resulting from tax law changes and outside-U.S. entity reorganizations | — | (3 ) | |
| Selling, general and administrative expenses excluding unusual item | $187 | $187 | — % |

SG&A expenses in first quarter 2018 included costs for professional fees resulting from fourth quarter 2017 tax law changes and related outside-U.S. entity reorganizations as part of the transition to an international treasury services center. Excluding this unusual item, SG&A expenses were relatively unchanged.

### Research and Development Expenses

| | First Quarter | | |
|---|---|---|---|
| (Dollars in millions) | 2019 | 2018 | Change |
| Research and development expenses | $58 | $ 56 | 4 % |

R&D expenses increased primarily due to higher costs of growth initiatives.

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

**Asset Impairments and Restructuring Charges, Net**

| (Dollars in millions) | First Quarter 2019 | 2018 |
|---|---|---|
| Severance charges | $ 28 | $ 2 |
| Other restructuring costs | 4 | — |
| Total | $ 32 | $ 2 |

First quarter 2019 restructuring charges included $28 million for severance and related costs as part of business improvement and cost reduction initiatives. Management anticipates additional restructuring charges in 2019 from these initiatives resulting in total cost savings of approximately $50 million to be recognized mostly in 2019 primarily in cost of sales and SG&A expenses. First quarter 2019 also included an additional $4 million restructuring charge related to a capital project in the AFP segment that was discontinued in 2016. In first quarter 2018, the Company recognized restructuring charges of $2 million for corporate severance.

For more information regarding asset impairments and restructuring charges, net see Note 13, "Asset Impairments and Restructuring Charges, Net", to the Company's unaudited consolidated financial statements in Part I, Item 1 of this Quarterly Report on Form 10-Q.

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

| (Dollars in millions) | First Quarter 2019 | 2018 |
|---|---|---|
| Other components of post-employment (benefit) cost, net | $(21) | $(30) |

For more information regarding other components of post-employment (benefit) cost, net see Note 7, "Retirement Plans", to the Company's unaudited consolidated financial statements in Part I, Item 1 of this Quarterly Report on Form 10-Q.

**Other (Income) Charges, Net**

| (Dollars in millions) | First Quarter 2019 | 2018 |
|---|---|---|
| Currency transaction costs resulting from tax law changes and outside-U.S. entity reorganizations | $— | $ 8 |
| (Income) loss from equity investments and other investment (gains) losses, net | (3 ) | (5 ) |
| Coal gasification incident property insurance | — | (50 ) |
| Other, net | 1 | 1 |
| Other (income) charges, net | $(2) | $(46) |
| Currency transaction costs resulting from tax law changes and outside-U.S. entity reorganizations | — | (8 ) |
| Coal gasification incident property insurance | — | 50 |
| Other (income) charges, net excluding non-core and unusual items | $(2) | $(4 ) |

**Earnings Before Interest and Taxes**

| (Dollars in millions) | First Quarter 2019 | 2018 | Change |
|---|---|---|---|
| | $ 320 | $ 409 | (22 )% |

| | | | | | | |
|---|---|---|---|---|---|---|
| Earnings before interest and taxes | | | | | | |
| Costs resulting from tax law changes and outside-U.S. entity reorganizations | — | | 11 | | | |
| Asset impairments and restructuring charges, net | 32 | | 2 | | | |
| Net coal gasification incident costs | — | | 37 | | | |
| Earnings before interest and taxes excluding non-core and unusual items | $ | 352 | $ | 459 | (23 | )% |

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

**Net Interest Expense**

| | First Quarter | | |
|---|---|---|---|
| (Dollars in millions) | **2019** | **2018** | **Change** |
| Gross interest costs | $58 | $ 61 | |
| Less: Capitalized interest | 1 | 1 | |
| Interest expense | 57 | 60 | |
| Less: Interest income | 1 | 1 | |
| Net interest expense | $56 | $ 59 | (5 )% |

Net interest expense decreased $3 million primarily as a result of U.S. dollar to euro cross-currency swaps and reduced debt partially offset by increased interest rates.

**Provision for Income Taxes**

| | First Quarter | | | |
|---|---|---|---|---|
| | **2019** | | **2018** | |
| (Dollars in millions) | **$** | **%** | **$** | **%** |
| Provision for income taxes and effective tax rate | $55 | 21% | $60 | 17% |
| Tax provision for non-core and unusual items [1] | 6 | | 11 | |
| Adjustments from tax law changes and outside-U.S. entity reorganizations | (10 ) | | — | |
| Interim adjustment to tax provision [2] | (3 ) | | 5 | |
| Adjusted provision for income taxes and effective tax rate | $48 | 17% | $76 | 19% |

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

(2) First quarter 2019 provision for income taxes were adjusted to reflect the current forecasted full year effective tax rate. First quarter 2018 provision for income taxes were adjusted to reflect the then forecasted full year effective tax rate. The adjusted provision for income taxes for first three months 2019 and 2018 are calculated applying the forecasted full year effective tax rate as shown below.

| | First Three Months | |
|---|---|---|
| | **2019** | **2018** |
| Effective tax rate | 21 % | 17 % |
| Discrete tax items [1] | — % | 1 % |
| Tax impact of non-core and unusual items [2] | (2 )% | 2 % |
| Forecasted full year impact of expected tax events | (2 )% | (1 )% |
| Forecasted full year effective tax rate | 17 % | 19 % |

(1) "Discrete tax items" are items that are excluded from a company's estimated annual effective tax rate and recognized entirely in the quarter in which the item occurs. First three months 2018 discrete item relates to an adjustment of prior year income tax returns.

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

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

**Net Earnings Attributable to Eastman and Diluted Earnings per Share**

| | First Quarter | | | |
|---|---|---|---|---|
| | 2019 | | 2018 | |
| (Dollars in millions, except EPS) | $ | EPS | $ | EPS |
| Net earnings and diluted earnings per share attributable to Eastman | $209 | $1.49 | $290 | $2.00 |
| Non-core item, net of tax: (1) | | | | |
| Asset impairments and restructuring charges, net | 26 | 0.18 | 2 | 0.01 |
| Unusual items, net of tax: (1) | | | | |
| Net coal gasification incident costs | — | — | 29 | 0.20 |
| Costs resulting from tax law changes and outside-U.S. entity reorganizations | — | — | 8 | 0.06 |
| Adjustments from tax law changes and outside-U.S. entity reorganizations | 10 | 0.07 | — | — |
| Interim adjustment to tax provision | 3 | 0.03 | (5 ) | (0.04 ) |
| Adjusted net earnings and diluted earnings per share attributable to Eastman | $248 | $1.77 | $324 | $2.23 |

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

## SUMMARY BY OPERATING SEGMENT

Eastman's products and operations are managed and reported in four operating segments: Additives & Functional Products ("AFP"), Advanced Materials ("AM"), Chemical Intermediates ("CI"), and Fibers. For additional financial and product information for each operating segment, see Part I, Item 1, "Business - Business Segments" and Part II, Item 8, Note 19, "Segment Information", in the Company's 2018 Annual Report on Form 10-K.

**Additives & Functional Products Segment**

| | First Quarter | | | |
|---|---|---|---|---|
| | | | Change | |
| | 2019 | 2018 | $ | % |
| (Dollars in millions) | | | | |
| Sales | $855 | $939 | $(84) | (9 )% |
| Volume / product mix effect | | | (45 ) | (5 )% |
| Price effect | | | (16 ) | (2 )% |
| Exchange rate effect | | | (23 ) | (2 )% |
| | | | | |
| Earnings before interest and taxes | $146 | $176 | $(30) | (17)% |
| Asset impairments and restructuring charges, net | 4 | — | 4 | |
| Net coal gasification incident costs | — | 2 | (2 ) | |
| Earnings before interest and taxes excluding non-core and unusual items | 150 | 178 | (28 ) | (16)% |

Sales revenue decreased due to lower sales volume, particularly for adhesive resins, animal nutrition, and tire additives products; an unfavorable shift in foreign currency exchange rates; and lower selling prices due to lower raw material prices, particularly for care chemicals. Lower sales volume was attributed to continued competitive pressure and customer inventory destocking.

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

First quarter 2019 EBIT included a restructuring charge related to a capital project. First quarter 2018 EBIT included net costs from the coal gasification incident. Excluding this non-core item and unusual item, EBIT decreased primarily due to lower sales volume of $18 million, lower selling prices of $17 million, and an unfavorable shift in foreign currency exchange rates of $6 million, partially offset by lower raw material and operating costs of $13 million.

**Advanced Materials Segment**

| | First Quarter | | | |
|---|---|---|---|---|
| | | | Change | |
| | 2019 | 2018 | $ | % |
| (Dollars in millions) | | | | |
| Sales | $657 | $693 | $(36) | (5 )% |
| Volume / product mix effect | | | (29 ) | (4 )% |
| Price effect | | | 8 | 1 % |
| Exchange rate effect | | | (15 ) | (2 )% |
| Earnings before interest and taxes | $102 | $135 | $(33) | (24)% |
| Net coal gasification incident costs | — | 3 | (3 ) | |
| Earnings before interest and taxes excluding unusual item | 102 | 138 | (36 ) | (26)% |

Sales revenue decreased primarily due to lower specialty plastics sales volume and an unfavorable shift in foreign currency exchange rates. Lower specialty plastics sales volume is attributed to continued customer inventory destocking related to uncertainty caused by the U.S. - China trade dispute. Increased automotive paint protection film and architectural interlayers products sales volumes were offset by decreased advanced interlayers and other performance films products sales volumes due to declines in global vehicle production and sales.

First quarter 2018 EBIT included net costs from the coal gasification incident. Excluding this unusual item, EBIT decreased primarily due to lower sales volume of $21 million, higher raw material costs of $9 million, and an unfavorable shift in foreign currency exchange rates of $6 million.

**Chemical Intermediates Segment**

| | First Quarter | | | |
|---|---|---|---|---|
| | | | Change | |
| | 2019 | 2018 | $ | % |
| (Dollars in millions) | | | | |
| Sales | $655 | $730 | $(75) | (10)% |
| Volume / product mix effect | | | (47 ) | (6 )% |
| Price effect | | | (21 ) | (3 )% |
| Exchange rate effect | | | (7 ) | (1 )% |
| Earnings before interest and taxes | $73 | $70 | $3 | 4 % |
| Net coal gasification incident costs | — | 19 | (19 ) | |
| Earnings before interest and taxes excluding unusual item | 73 | 89 | (16 ) | (18)% |

Sales revenue decreased primarily due to lower sales volume affected by actions taken to reduce bulk ethylene sales enabled by the completion of modifications to the Longview, Texas manufacturing site's olefin cracking units to allow for the introduction of refinery-grade propylene into the feedstock mix. Sales revenue was also negatively impacted by lower selling prices resulting from lower market raw material prices for specific olefin derivative products.

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

First quarter 2018 EBIT included net costs from the coal gasification incident. Excluding this unusual item, EBIT decreased primarily due to lower sales volume of $10 million and lower selling prices partially offset by lower raw material and energy costs for specific olefin derivative products of $7 million.

**Fibers Segment**

| | First Quarter | | | |
|---|---|---|---|---|
| | | | Change | |
| | 2019 | 2018 | $ | % |
| (Dollars in millions) | | | | |
| Sales | $213 | $245 | $(32) | (13)% |
| Volume / product mix effect | | | (26 ) | (11)% |
| Price effect | | | (5 ) | (2 )% |
| Exchange rate effect | | | (1 ) | — % |
| | | | | |
| Earnings before interest and taxes | $42 | $43 | $(1 ) | (2 )% |
| Net coal gasification incident costs | — | 13 | (13 ) | |
| Earnings before interest and taxes excluding unusual item | 42 | 56 | (14 ) | (25)% |

Sales revenue decreased primarily due to lower acetate tow sales volume attributed to the U.S. - China trade dispute and customer buying patterns, and lower acetate tow selling prices attributed to lower industry capacity utilization. First quarter 2018 EBIT included net costs from the coal gasification incident. Excluding this unusual item, adjusted EBIT decreased primarily due to the net impact of $16 million of lower acetate tow sales volume and lower selling prices, partially offset by lower raw material costs.

**Other**

| | First Quarter | |
|---|---|---|
| | 2019 | 2018 |
| (Dollars in millions) | | |
| Loss before interest and taxes | | |
| Growth initiatives and businesses not allocated to operating segments | $(27) | $(26) |
| Pension and other postretirement benefits income (expense), net not allocated to operating segments | 12 | 21 |
| Asset impairments and restructuring charges, net | (28 ) | (2 ) |
| Other income (charges), net not allocated to operating segments | — | (8 ) |
| Loss before interest and taxes before non-core and unusual items | $(43) | $(15) |
| Costs resulting from tax law changes and outside-U.S. entity reorganizations | — | 11 |
| Asset impairments and restructuring charges, net | 28 | 2 |
| Loss before interest and taxes excluding non-core and unusual items | (15 ) | (2 ) |

Costs related to growth initiatives, R&D costs, certain components of pension and other postretirement benefits, and other expenses and income not identifiable to an operating segment are not included in operating segment results for any of the periods presented and are included in "Other".

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

**SALES BY CUSTOMER LOCATION**

| | Sales Revenue First Quarter | | | |
|---|---|---|---|---|
| | | | Change | |
| (Dollars in millions) | 2019 | 2018 | $ | % |
| United States and Canada | $1,000 | $1,100 | $(100) | (9)% |
| Asia Pacific | 553 | 642 | (89) | (14)% |
| Europe, Middle East, and Africa | 689 | 727 | (38) | (5)% |
| Latin America | 138 | 138 | — | — % |
| Total Eastman Chemical Company | $2,380 | $2,607 | $(227) | (9)% |

Sales revenue in United States and Canada decreased primarily due to lower sales volume in all operating segments, particularly the CI segment, and lower selling prices in the CI segment.

Sales revenue in Asia Pacific decreased primarily due to lower sales volume in all operating segments, particularly the AM and Fibers segments.

Sales revenue in Europe, Middle East, and Africa decreased primarily due to unfavorable foreign currency exchange rates.

**LIQUIDITY, CAPITAL RESOURCES, AND OTHER FINANCIAL INFORMATION**

**Cash Flows**

| | First Three Months | |
|---|---|---|
| (Dollars in millions) | 2019 | 2018 |
| Net cash provided by (used in) | | |
| Operating activities | $(5) | $(35) |
| Investing activities | (125) | (78) |
| Financing activities | 102 | 116 |
| Effect of exchange rate changes on cash and cash equivalents | (3) | — |
| Net change in cash and cash equivalents | (31) | 3 |
| Cash and cash equivalents at beginning of period | 226 | 191 |
| Cash and cash equivalents at end of period | $195 | $194 |

Cash used in operating activities decreased $30 million in first three months 2019 compared with first three months 2018. First three months 2018 included net cash of $110 million used in operating activities related to the coal gasification incident. Excluding this item, net cash used in operating activities increased $80 million in 2019 due to lower net earnings and increased net working capital, partially offset by lower tax payments included as a part of "Other items, net" in the Unaudited Consolidated Statements of Cash Flows.

Cash used in investing activities increased $47 million in first three months 2019 compared with first three months 2018. First three months 2018 included $50 million proceeds from coal gasification incident insurance for property damage. Excluding this item, cash used in investing activities was relatively unchanged.

Cash provided by financing activities decreased $14 million in first three months 2019 compared with first three months 2018. The decrease was primarily due to higher share repurchases and dividend payments partially offset by increased net proceeds from borrowings.

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

| | First Three Months | |
|---|---|---|
| (Dollars in millions) | **2019** | **2018** |
| Net cash used in operating activities | $(5) | $(35) |
| Capital expenditures | | |
| Additions to properties and equipment | (106) | (128) |
| Proceeds from property insurance [1] | — | 50 |
| Net capital expenditures | (106) | (78) |
| Free cash flow | $(111) | $(113) |

(1) Cash proceeds from insurance for coal gasification incident property damage.

**Liquidity and Capital Resources**

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

The Company has access to a $1.50 billion revolving credit agreement (the "Credit Facility") expiring October 2023. Borrowings under the Credit Facility are subject to interest at varying spreads above quoted market rates and a commitment fee is paid on the total unused commitment. The Credit Facility provides available liquidity for general corporate purposes and supports commercial paper borrowings. At March 31, 2019, the Company had no outstanding borrowings under the Credit Facility. At March 31, 2019, the Company's commercial paper borrowings were $502 million with a weighted average interest rate of 2.76 percent. See Note 5, "Borrowings", to the Company's unaudited consolidated financial statements in Part I, Item 1 of this Quarterly Report on Form 10-Q.

The Company has access to up to $250 million under an accounts receivable securitization agreement (the "A/R Facility") that expires April 2020. Eastman Chemical Financial Corporation ("ECFC"), a subsidiary of the Company, has an agreement to sell interests in trade receivables under the A/R Facility to a third party purchaser. Third party creditors of ECFC have first priority claims on the assets of ECFC before those assets would be available to satisfy the Company's general obligations. Borrowings under the A/R Facility are subject to interest rates based on a spread over the lender's borrowing costs, and ECFC pays a fee to maintain availability of the A/R Facility. At March 31, 2019, the Company had no borrowings outstanding under the A/R Facility. See Note 5, "Borrowings", to the Company's unaudited consolidated financial statements in Part I, Item 1 of this Quarterly Report on Form 10-Q.

The Company has access to borrowings of up to €150 million ($169 million) under a receivables facility based on the discounted value of selected customer accounts receivable. This facility expires December 2020 and renews for another one year period if not terminated with 90 days notice by either party. These arrangements include receivables in the United States, Belgium, and Finland, and are subject to various eligibility requirements. Borrowings under this facility are subject to interest at an agreed spread above LIBOR and EURIBOR plus administration and insurance fees. At March 31, 2019, the Company's amount of outstanding borrowings under this facility were $110 million with a weighted average interest rate of 1.48 percent. See Note 5, "Borrowings", to the Company's unaudited consolidated financial statements in Part I, Item 1 of this Quarterly Report on Form 10-Q.

The Credit and A/R Facilities and other borrowing agreements contain customary covenants and events of default, some of which require the Company to maintain certain financial ratios that determine the amounts available and terms of borrowings. The Company was in compliance with all covenants at both March 31, 2019 and December 31, 2018. The total amount of available borrowings under the A/R and Credit Facilities was approximately $1.75 billion as of March 31, 2019. For additional information, see Section 5.03 of the Credit Facility at Exhibit 10.03 to the Company's Current Report on Form 8-K dated October 9, 2014.

### Debt and Other Commitments

At March 31, 2019, the Company's borrowings totaled $6.5 billion with various maturities. See Note 5, "Borrowings", to the Company's unaudited consolidated financial statements in Part I, Item 1 of this Quarterly Report on Form 10-Q.

The resolution of uncertainties related to environmental matters may have a material adverse effect on the Company's consolidated results of operations in the period recognized. However, because of the availability of legal defenses, the Company's preliminary assessment of actions that may be required, and the extended period of time that the obligations are expected to be satisfied, management does not believe that the Company's liability for these environmental matters, individually or in the aggregate, will have a material adverse effect on the Company's future liquidity or financial condition. See Note 1, "Significant Accounting Policies", to the consolidated financial statements in Part II, Item 8 of the Company's 2018 Annual Report on Form 10-K for the Company's accounting policy for environmental costs and see Note 9, "Environmental Matters and Asset Retirement Obligations", to the Company's unaudited consolidated financial statements in Part I, Item 1 of this Quarterly Report on Form 10-Q for more information regarding outstanding environmental matters and asset retirement obligations.

See Note 8, "Leases and Off Balance Sheet Items", to the Company's unaudited consolidated financial statements in Part I, Item 1 of this Quarterly Report on Form 10-Q for information regarding other commitments.

### Off Balance Sheet Items

The Company has uncommitted accounts receivable purchase agreements under which entire invoices may be sold, without recourse, to third-party financial institutions. Under these programs, the Company sells the invoices at face value, less a transaction fee, which substantially equals the carrying value and fair value with no gain or loss recognized and no credit loss exposure is retained. Available capacity under these programs, which the Company uses as a source of working capital funding, is dependent on the level of accounts receivable eligible to be sold into these programs and the financial institutions' willingness to purchase such receivables. In addition, certain of these agreements also require that the Company continue to service, administer and collect the sold accounts receivable at market rates. The total amount of receivables sold in first quarter 2019 and 2018 were $101 million and $39 million, respectively. Based on the original terms of receivables sold for certain programs and actual outstanding balance of receivables under service agreements, the Company estimates that $77 million and $76 million of these receivables would have been outstanding as of March 31, 2019 and December 31, 2018, respectively.

See Note 8, "Leases and Off Balance Sheet Items", to the Company's unaudited consolidated financial statements in Part I, Item 1 of this Quarterly Report on Form 10-Q for additional information regarding off balance sheet items.

$106 million . Capital expenditures in 2019 were primarily for manufacturing capacity debottlenecking and site modernization projects at the Kingsport, Tennessee and Longview, Texas manufacturing sites. The Company expects that 2019 capital expenditures will be between $475 million and $500 million, primarily for targeted growth initiatives and maintenance.

### Stock Repurchases and Dividends

In February 2018, the Company's Board of Directors authorized the repurchase of up to $2 billion of the Company's outstanding common stock at such times, in such amounts, and on such terms, as determined by management to be in the best interest of the Company. As of March 31, 2019, a total of 4,052,831 shares have been repurchased under this authorization for a total amount of $373 million.

The Board of Directors declared a cash dividend of $0.62 per share during the second quarter of 2019, payable on July 5, 2019 to stockholders of record on June 17, 2019.

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

### Other

Eastman did not have any material relationships with unconsolidated entities or financial partnerships, including special purpose entities, for the purpose of facilitating off balance sheet arrangements with contractually narrow or limited purposes. Thus, the Company is not materially exposed to any financing, liquidity, market, or credit risk related to any such relationships.

## RECENTLY ISSUED ACCOUNTING STANDARDS

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

## OUTLOOK

In 2019, management expects adjusted EPS to be six to ten percent higher than 2018 and greater than $1.1 billion free cash flow. These expectations assume:

- earnings to benefit from a robust portfolio of specialty businesses in attractive niche end-markets, strong growth in high margin, innovative products, relatively unchanged manufacturing costs due to aggressive cost management, and $40 million of cost savings resulting from business improvement and cost reduction initiatives;
- earnings to be negatively impacted by slow global economic growth, the U.S. - China trade dispute, a stronger U.S. dollar, and higher pension costs due to lower expected return on assets and higher interest costs;
- interest expense of approximately $225 million;
- the full-year effective tax rate on reported earnings before income tax to be approximately 17 percent;
- depreciation and amortization of approximately $620 million;
- capital expenditures between $475 million and $500 million;
- reduction in debt to be lower than 2018; and
- increased share repurchases compared to 2018.

The Company's 2019 financial results forecasts do not include non-core, unusual, or non-recurring items. Accordingly, management is unable to reconcile projected full-year 2019 earnings excluding non-core, unusual, or non-recurring items to projected reported GAAP earnings without unreasonable efforts.

See "Risk Factors" below.

## RISK FACTORS

In addition to factors described elsewhere in this Quarterly Report, the following are the most significant known factors, risks, and uncertainties that could cause actual results to differ materially from those in the forward-looking statements made in this Quarterly Report and elsewhere from time to time. See "Forward-Looking Statements".

**Continued uncertain conditions in the global economy and the financial markets could negatively impact the Company.**

The Company's business and operating results were affected by the impact of the last global recession, and its related impacts, such as the credit market crisis, declining consumer and business confidence, fluctuating commodity prices, volatile exchange rates, and other challenges that affected the global economy. Continued uncertainty in the global economy and global capital markets may adversely affect Eastman's results of operations, financial condition, and cash flows. In addition, the Company's ability to access the credit and capital markets under attractive rates and terms could be constrained, which may negatively impact the Company's liquidity or ability to pursue certain growth initiatives.

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

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

Eastman is reliant on certain strategic raw material and energy commodities for its operations and utilizes risk management tools, including hedging, as appropriate, to mitigate market fluctuations in raw material and energy costs. These risk mitigation measures do not eliminate all exposure to market fluctuations and may limit the Company from fully benefiting from lower raw material costs and, conversely, offset the impact of higher raw material costs. In addition, natural disasters, plant interruptions, changes in laws or regulations, war or other outbreak of hostilities or terrorism, and breakdown or degradation of transportation infrastructure used for delivery of strategic raw material and energy commodities, could adversely impact both the cost and availability of these commodities.

**Loss or financial weakness of any of the Company's largest customers could adversely affect the Company's financial results.**

Although Eastman has an extensive customer base, loss of, or material financial weakness of, certain of the Company's largest customers could adversely affect the Company's financial condition and results of operations until such business is replaced. No assurances can be made that the Company would be able to regain or replace any lost customers.

**The Company's business is subject to operating risks common to chemical manufacturing businesses, including cyber security risks, any of which could disrupt manufacturing operations or related infrastructure and adversely affect results of operations.**

As a global specialty chemicals manufacturing company, Eastman's business is subject to operating risks common to chemical manufacturing, storage, handling, and transportation, including explosions, fires, inclement weather, natural disasters, mechanical failure, unscheduled downtime, transportation interruptions, remediation, chemical spills, discharges or releases of toxic or hazardous substances or gases. Significant limitation on the Company's ability to manufacture products due to disruption of manufacturing operations or related infrastructure could have a material adverse effect on the Company's sales revenue, costs, results of operations, credit ratings, and financial condition. Disruptions could occur due to internal factors such as computer or equipment malfunction (accidental or intentional), operator error, or process failures; or external factors such as computer or equipment malfunction at third-party service providers, natural disasters, pandemic illness, changes in laws or regulations, war or other outbreak of hostilities or terrorism, cyber attacks, or breakdown or degradation of transportation infrastructure used for delivery of supplies to the Company or for delivery of products to customers. The Company has in the past experienced cyber attacks and breaches of its computer information systems, although none of these have had a material adverse effect on the Company's operations. While the Company remains committed to managing cyber related risk, no assurances can be provided that any future disruptions due to these, or other, circumstances will not have a material effect on operations. Unplanned disruptions of manufacturing operations or related infrastructure could be significant in scale and could negatively impact operations, neighbors, and the environment, and could have a negative impact on the Company's results of operations. As previously reported, manufacturing operations and earnings have been negatively impacted by the fourth quarter 2017 operational incident in the Kingsport manufacturing facility coal gasification operations area and the second quarter 2018 third-party supplier operational disruptions at the Texas City and Longview, Texas manufacturing facilities.

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

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

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

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

More than half of Eastman's sales for 2018 were to customers outside of North America. The Company expects sales from international markets to continue to represent a significant portion of its sales. Also, a significant portion of the Company's manufacturing capacity is located outside of the United States. Accordingly, the Company's business is subject to risks related to the differing legal, political, cultural, social and regulatory requirements, and economic conditions of many jurisdictions. Fluctuations in exchange rates may affect product demand and may adversely affect the profitability in U.S. dollars of products and services provided in foreign countries. In addition, the U.S. or foreign countries have imposed and may impose additional taxes or otherwise tax Eastman's foreign income, or adopt or increase restrictions on foreign trade or investment, including currency exchange controls, tariffs or other taxes, or limitations on imports or exports (including recent and proposed changes in U.S. trade policy and resulting retaliatory actions by other countries, including China, which have recently reduced and which may increasingly reduce demand for and increase costs of impacted products or result in U.S.-based trade counterparties limiting trade with U.S.-based companies or non-U.S. customers limiting their purchases from U.S.-based companies). Certain legal and political risks are also inherent in the operation of a company with Eastman's global scope. For example, it may be more difficult for Eastman to enforce its agreements or collect receivables through foreign legal systems, and the laws of some countries may not protect the Company's intellectual property rights to the same extent as the laws of the U.S. Failure of foreign countries to have laws to protect Eastman's intellectual property rights or an inability to effectively enforce such rights in foreign countries could result in loss of valuable proprietary information. There is also risk that foreign governments may nationalize private enterprises in certain countries where Eastman operates. Social and cultural norms in certain countries may not support compliance with Eastman's corporate policies including those that require compliance with substantive laws and regulations. Also, changes in general economic and political conditions in countries where Eastman operates are a risk to the Company's financial performance. As Eastman continues to operate its business globally, its success will depend, in part, on its ability to anticipate and effectively manage these and other related risks. There can be no assurance that the consequences of these and other factors relating to its multinational operations will not have an adverse effect on Eastman's business, financial condition, or results of operations.

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

**Legislative or regulatory actions could increase the Company's future compliance costs.**

Eastman and its facilities and businesses are subject to complex health, safety, and environmental laws and regulations, both in the U.S. and internationally, which require and will continue to require significant expenditures to remain in compliance with such laws and regulations. The Company's accruals for such costs and associated liabilities are subject to changes in estimates on which the accruals are based. For example, any amount accrued for environmental matters reflects the Company's assumptions about remediation requirements at the contaminated site, the nature of the remedy, the outcome of discussions with regulatory agencies and other potentially responsible parties at multi-party sites, and the number of and financial viability of other potentially responsible parties. Changes in the estimates on which the accruals are based, unanticipated government enforcement action, or changes in health, safety, environmental, chemical control regulations, and testing requirements could result in higher costs. Specifically, future changes in U.S. Federal legislation and regulation may increase the likelihood that the Company's manufacturing facilities will in the future be impacted by regulation of greenhouse gas emissions and energy policy, which legislation and regulation, if enacted, may result in capital expenditures, increases in costs for raw materials and energy, limitations on raw material and energy source and supply choices, and other direct compliance costs.

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

While acquisitions have been and continue to be a part of Eastman's growth strategy, acquisitions of large companies (such as the previous acquisitions of Taminco Corporation and Solutia, Inc.) subject the Company to a number of risks and uncertainties, the occurrence of any of which could have a material adverse effect on Eastman. These include, but are not limited to, the possibilities that the financial performance of the acquired business may be significantly worse than expected; that significant additional indebtedness may constrain the Company's ability to access the credit and capital markets at attractive interest rates and favorable terms, which may negatively impact the Company's liquidity or ability to pursue certain growth initiatives; that the Company may not be able to achieve the cost, revenue, tax, or other "synergies" expected from any acquisition, or that there may be delays in achieving any such synergies; that management's time and effort may be dedicated to the new business resulting in a loss of focus on the successful operation of the Company's existing businesses; and that the Company may be required to expend significant additional resources in order to integrate any acquired business into Eastman or that the integration efforts will not achieve the expected benefits.

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

**ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

There have been no material changes to the Company's market risks from those disclosed in Part II, Item 7A of the Company's 2018 Annual Report on Form 10-K.

**ITEM 4. CONTROLS AND PROCEDURES**

**Disclosure Controls and Procedures**

Eastman maintains a set of disclosure controls and procedures designed to ensure that information required to be disclosed by the Company in reports that it files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized, and reported within the time periods specified in Securities and Exchange Commission rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to provide reasonable assurance that information required to be disclosed by the Company in the reports that it files or submits under the Securities Exchange Act of 1934 is accumulated and communicated to the Company's management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure. An evaluation was carried out under the supervision and with the participation of the Company's management, including the Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), of the effectiveness of the Company's disclosure controls and procedures. Based on that evaluation, the CEO and CFO have concluded that as of March 31, 2019, the Company's disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed was accumulated and communicated to management as appropriate to allow timely decisions regarding required disclosure.

**Changes in Internal Control Over Financial Reporting**

There has been no change in the Company's internal control over financial reporting that occurred during the first quarter of 2019 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

## PART II. OTHER INFORMATION

## ITEM 1. LEGAL PROCEEDINGS

**General**

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

**Solutia Legacy Torts Claims Litigation**

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

## ITEM 1A. RISK FACTORS

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

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

### (c) Purchases of Equity Securities by the Issuer

In February 2018, the Company's Board of Directors authorized the repurchase of up to an additional $2 billion of Company's outstanding common stock at such times, in such amounts, and on such terms, as determined by management to be in the best interest of the Company. As of March 31, 2019, a total of 4,052,831 shares have been repurchased under this authorization for a total amount of $373 million. During first three months 2019, the Company repurchased 1,582,076 shares of common stock for a cost of $125 million. For additional information, see Note 11, "Stockholders' Equity", to the Company's unaudited consolidated financial statements in Part I, Item 1 of this Quarterly Report on Form 10-Q.

| Period | Total Number of Shares Purchased | Average Price Paid Per Share [1] | Total Number of Shares Purchased as Part of Publicly Announced Plan or Program | Approximate Dollar Value that May Yet Be Purchased Under the Plan or Program |
|---|---|---|---|---|
| January 1 - 31, 2019 | 655,701 | $ 76.25 | 655,701 | $ 1.702 billion |
| February 1 - 28, 2019 | 587,459 | $ 81.80 | 587,459 | $ 1.654 billion |
| March 1 - 31, 2019 | 338,916 | $ 79.51 | 338,916 | $ 1.627 billion |
| Total | 1,582,076 | $ 79.01 | 1,582,076 | |

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

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## ITEM 6. EXHIBITS

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

**EXHIBIT INDEX**

| Exhibit Number | Description |
|---|---|
| 3.01 | Amended and Restated Certificate of Incorporation of Eastman Chemical Company (incorporated herein by reference to Exhibit 3.01 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2012) |
| 3.02 | Amended and Restated Bylaws of Eastman Chemical Company (incorporated herein by reference to Exhibit 3.02 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2017) |
| 4.01 | Form of Eastman Chemical Company common stock certificate as amended February 1, 2001 (incorporated herein by reference to Exhibit 4.01 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2001) |
| 4.02 | Indenture, dated as of January 10, 1994, between Eastman Chemical Company and The Bank of New York, as Trustee (incorporated herein by reference to Exhibit 4(a) to the Company's Current Report on Form 8-K dated January 10, 1994) |
| 4.03 | Indenture, dated as of June 5, 2012, between Eastman Chemical Company and Wells Fargo Bank, as Trustee (incorporated herein by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K dated June 5, 2012) |