

EASTMAN CHEMICAL CO
Form 10-K
February 28, 2014

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

(Mark
One)

- ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2013
OR
 TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____ to _____

Commission file number 1-12626

EASTMAN CHEMICAL COMPANY
(Exact name of registrant as specified in its charter)
Delaware
(State or other jurisdiction of
incorporation or organization)

62-1539359
(I.R.S. employer
identification no.)

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

37662
(Zip Code)

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

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

| Title of each class | Name of each exchange on which registered |
|--|---|
| Common Stock, par value \$0.01 per share | New York Stock Exchange |

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No
[X]

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes No
[X]

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No
[X]

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [X]

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

Large accelerated filer Accelerated filer
 Non-accelerated filer Smaller reporting company
 (Do not check if a smaller reporting company)

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

The aggregate market value (based upon the \$70.01 closing price on the New York Stock Exchange on June 28, 2013) of the 151,595,823 shares of common equity held by non-affiliates as of December 31, 2013 was approximately \$10,613,223,568 using beneficial ownership rules adopted pursuant to Section 13 of the Securities Exchange Act of 1934 to exclude common stock that may be deemed beneficially owned as of December 31, 2013 by Eastman Chemical Company's ("Eastman" or the "Company") directors and executive officers and charitable foundation, some of whom might not be held to be affiliates upon judicial determination. A total of 152,467,174 shares of common stock of the registrant were outstanding at December 31, 2013.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive Proxy Statement relating to the 2014 Annual Meeting of Stockholders (the "2014 Proxy Statement"), to be filed with the Securities and Exchange Commission, are incorporated by reference in Part III, Items 10 to 14 of this Annual Report on Form 10-K (this "Annual Report") as indicated herein.

FORWARD-LOOKING STATEMENTS

Certain statements made in this Annual Report are "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act, Section 27A of the Securities Act of 1933, as amended and Section 21E of the Securities and Exchange Act of 1934, as amended. Forward-looking statements are all statements, other than statements of historical fact, that may be made by the Company from time to time. In some cases, you can identify forward-looking statements by terminology such as "anticipates," "believes," "estimates," "expects," "intends," "may," "plans," "projects," "will," "would," and similar expressions or expressions of the negative of these terms.

Forward-looking statements may relate to, among other things, such matters as planned and expected capacity increases and utilization; anticipated capital spending; expected depreciation and amortization; environmental matters; pending and future legal proceedings; exposure to, and effects of hedging of, raw material and energy costs, foreign currencies and interest rates; global and regional economic, political, and business conditions; competition; growth opportunities; supply and demand, volume, price, cost, margin and sales; earnings, cash flow, dividends and other expected financial results and conditions; expectations, strategies, and plans for individual assets and products, businesses, and segments, as well as for the whole of Eastman; cash requirements and uses of available cash; financing plans and activities; pension expenses and funding; credit ratings; anticipated and other future restructuring, acquisition, divestiture, and consolidation activities; cost reduction and control efforts and targets; the timing and costs of, and benefits from, the integration of, and expected business and financial performance of, acquired businesses; strategic initiatives and development, production, commercialization and acceptance of new products, services and technologies and related costs; asset, business, and product portfolio changes; and expected tax rates and net interest costs.

Forward-looking statements are based upon certain underlying assumptions as of the date such statements were made. Such assumptions are based upon internal estimates and other analyses of current market conditions and trends, management expectations, plans, and strategies, economic conditions, and other factors. Forward-looking statements and the assumptions underlying them are necessarily subject to risks and uncertainties inherent in projecting future conditions and results. Actual results could differ materially from expectations expressed in the forward-looking statements if one or more of the underlying assumptions and expectations proves to be inaccurate or is unrealized. The most significant known factors, risks, and uncertainties that could cause actual results to differ materially from those in the forward-looking statements are identified and discussed under "Management's Discussion and Analysis of Financial Condition and Results of Operations-Forward-Looking Statements and Risk Factors" in Part II, Item 7 of this Annual Report.

The Company cautions you not to place undue reliance on forward-looking statements, which speak only as of the date of this Annual Report. Except as may be required by law, the Company undertakes no obligation to update or alter these forward-looking statements, whether as a result of new information, future events, or otherwise.

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ITEM 1. BUSINESS
CORPORATE OVERVIEW

Eastman Chemical Company ("Eastman" or the "Company") is a global specialty chemical company that produces a broad range of advanced materials, chemicals, and fibers that are found in products people use every day. Eastman began business in 1920 for the purpose of producing chemicals for Eastman Kodak Company's photographic business and became a public company, incorporated in Delaware, on December 31, 1993. Eastman has 45 manufacturing sites in 16 countries and equity interests in joint ventures that supply chemicals, plastics, and fibers products to customers throughout the world. The Company's headquarters and largest manufacturing site are located in Kingsport, Tennessee.

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

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

In 2013, the Company reported sales revenue of \$9.4 billion, operating earnings of \$1.9 billion, and earnings from continuing operations of \$1.2 billion. Earnings per diluted share from continuing operations were \$7.44. Asset impairments and restructuring charges and Solutia acquisition-related costs included in operating earnings were \$76 million and \$36 million, respectively. Additionally, operating earnings included mark-to-market ("MTM") pension and other postretirement benefits plans actuarial net gains of \$383 million.

Business Strategy

Eastman's objective is to be an outperforming specialty chemical company with consistent earnings growth. The Company sells differentiated products into diverse markets and geographic regions. Eastman works with customers to meet their needs in existing and new markets through development of innovative products and technologies. Management believes that the Company can increase the revenues from its businesses while improving profitability through a balance of new applications for existing products, development of new products, sales growth in adjacent markets and emerging economies, and leveraging assets to improve cost position. These revenue and earnings increases are expected to result from both inorganic (external growth through joint ventures and acquisitions) initiatives and organic (internal) growth initiatives.

In 2013, the Company progressed on both inorganic and organic growth initiatives, including:

• substantially completing the integration of Solutia, which was acquired on July 2, 2012 and which:

broadened Eastman's global presence;
established a combined platform with extensive organic growth opportunities through complementary technologies and business capabilities, and an overlap of key end markets; and
expanded Eastman's portfolio of sustainable products and products with leading market positions;
in the Additives & Functional Products segment, completing an expansion of ethylene oxide derivative capacity in Longview, Texas in second quarter 2013 to meet demand in the coatings markets;
in the Advanced Materials segment, beginning the expansion of Eastman Tritan™ copolyester capacity at the Kingsport, Tennessee manufacturing facility which is expected to be operational in the second half of 2014 to meet demand for Eastman Tritan™ copolyester;

in the Fibers segment, completing a new 30,000 metric ton acetate tow manufacturing facility in Hefei, China during third quarter 2013 in a joint venture with China National Tobacco Corporation to meet customer growth; and in the Specialty Fluids & Intermediates segment: debottlenecking its largest olefins cracking unit in Longview, Texas, in first quarter 2013, primarily to produce additional ethylene to improve Eastman's olefin cost position; and beginning a Therminol[®] heat transfer fluid capacity expansion in Newport, Wales, which is expected to be operational in the second half of 2014 to support expected demand in the industrial chemicals and processing market.

In addition, in January 2014 the Company entered into a definitive agreement to acquire the assets of BP plc's global aviation turbine engine oil business. The acquisition is expected to be completed in the second quarter of 2014, and the acquired business will become a part of the Specialty Fluids & Intermediates segment.

The Company benefits from proprietary technologies and advantaged feedstocks, and is focusing on sustainability as a competitive strength for growth. Eastman has developed new products and technologies that enable customers' development and sales of sustainable products.

Management expects continued earnings growth, despite persistent economic uncertainty, as a result of the strength and diversity of the Company's businesses and balance sheet. The Company continues to evaluate inorganic growth opportunities, through joint ventures and acquisitions, intended to enhance the Company's product portfolio and extension into emerging markets.

Financial Strategy

In addition to managing its businesses and growth initiatives, the Company remains committed to maintaining a strong financial position with sufficient financial flexibility and liquidity. Eastman management believes maintaining a financial profile that supports an investment grade rating is important to its long term strategic and financial flexibility. The Company employs what management believes is a balanced approach to capital allocation and deployment of cash. The Company pursues a variety of organic growth opportunities and also considers inorganic growth opportunities, including joint ventures and acquisitions. The Company also returns cash to stockholders through dividends and, from time to time, share repurchases. The Company manages its debt based upon its capital structure objectives, funding requirements, and public and private debt market conditions. Management expects that the strength and diversity of the Company's businesses and balance sheet will provide continued strong cash flow and financial flexibility.

BUSINESS SEGMENTS

The Company's products and operations are managed and reported in five reporting segments: Additives & Functional Products ("AFP"), Adhesives & Plasticizers ("A&P"), Advanced Materials ("AM"), Fibers, and Specialty Fluids & Intermediates ("SFI"). This organizational structure is based on the management of the strategies, operating models, and sales channels that the various businesses employ. Sales revenue and research and development ("R&D") costs, certain components of pension and other postretirement benefits gains, losses, and costs, and other expenses and income not identifiable to an operating segment are not included in segment operating results for any of the periods presented and are shown as "other" sales revenue and "other" operating earnings (loss). For identification of manufacturing sites see Item 2 "Properties" in Part II, Item 8 of this Annual Report. For additional information concerning the Company's operating segments, see Note 21, "Segment Information", to the Company's consolidated financial statements in Part II, Item 8 of this Annual Report.

ADDITIVES & FUNCTIONAL PRODUCTS SEGMENT

Overview

In the AFP segment, the Company manufactures chemicals for products in the coatings and tires industries in transportation, building and construction, durable goods, and consumables markets. In 2013, the AFP segment had sales revenue of \$1.7 billion, 18 percent of Eastman's total sales. Key technology platforms in this segment are rubber additives, cellulosic polymers, specialty ketones and coalescents, polyester polymers, and hydrocarbon resins.

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AFP sales growth in the United States, Canada, and Europe typically approximates general economic growth due to the wide variety of end uses such as tires, paints, and consumables. Recently, the Company's sales growth in Asia and Eastern Europe has been higher than average global economic growth because of higher growth in gross domestic product ("GDP") and per capita income in these emerging economies. The segment focuses on producing high-value additives rather than finished formulated products. The segment principally competes on the unique performance characteristics of its products and through leveraging its strong customer base and long-standing customer relationships to promote substantial recurring business and product development. Some competitors may commit greater financial and other resources than Eastman to products in markets in which the AFP segment competes. Additionally, within each segment product market, the Company may compete with other smaller, regionally focused companies that may have advantages based upon location, local market knowledge, manufacturing strength in a specific product, or other similar factors.

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

Principal Products

| Product | Description | Principal Competitors | Key Raw Materials | End-Use Applications |
|--|--|--------------------------|-----------------------------------|--|
| Coatings Industry and Other | | | | Coatings Industry Building & Construction (architectural coatings) Transportation (OEM) and refinish coatings) |
| Solvents | | | | Durable Goods (industrial coatings applications) Other Consumables (graphic arts, cleaners, packaging) Industrial chemicals (process solvents and intermediates) |
| <ul style="list-style-type: none"> • Texanol™ • ketones • esters • glycol ethers • alcohol solvents | specialty coalescents, BASF SE | The Dow Chemical Company | propane propylene ethane | |
| Polymers | | | | Coatings Industry Transportation (OEM and refinish coatings) Durable Goods (industrial coatings applications and wood coatings) Other Consumables (graphic arts and printing inks) Durable Goods (packaging inks) |
| <ul style="list-style-type: none"> • cellulose • polyesters • polyolefins | paint additives and specialty polymers | alternative technologies | wood pulp propylene propane | |

| Product | Description | Principal Competitors | Key Raw Materials | End-Use Applications |
|-------------------------|----------------------------------|--|---|---|
| Tires Industry | | | | |
| Crystex® | insoluble sulfur rubber additive | Oriental Carbon & Chemicals Limited Shikoku Chemicals Corporation | naphthenic process oil sulfur | Transportation (rubber tire manufacturing) Other rubber products (such as hoses, belts, seals, and footwear) |
| Santoflex® | antidegradant rubber additive | Jiangsu Sinorgchem Technology Co, Ltd. Korea Kumho Petrochemical Co. Ltd. Lanxess AG Arizona Chemical Cray Valley Hydrocarbon Specialty Chemicals | nitrobenzene aniline methyl isobutyl ketone | Transportation (rubber tire manufacturing) Other rubber products (such as hoses, belts, seals, and footwear) |
| Piccotac® Kristalex® | hydrocarbon resins | Exxon Mobil Corporation Kolon Industries Incorporated | methylstyrene piperylene styrene | Transportation (rubber tire manufacturing) |

Percentage of Total Segment Sales

| Product Lines | 2013 | 2012 Pro Forma Combined | 2012 | 2011 |
|-------------------|------|----------------------------|------|------|
| Coatings Industry | 48% | 49% | 59% | 73% |
| Tires Industry | 34% | 34% | 20% | —% |
| Other Industries | 18% | 17% | 21% | 27% |

Growth

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

The Company's global manufacturing presence is a key element of the AFP segment's growth strategy. For example, the segment is well positioned to capitalize on expected high industrial growth rates in China and other parts of Asia from its facilities in Singapore and Kuantan, Malaysia.

In second quarter 2013, the Company completed an expansion of ethylene oxide derivative capacity in Longview, Texas. In addition, the Company continues to make progress in the refinement and enhancement of its technology for the manufacture of Crystex® insoluble sulfur in order to improve its cost position and introduce a higher performance product into the tires industry. In the first half of 2014, management plans to complete evaluation of the timing of

incorporating this technology into a capacity expansion at the Kuantan, Malaysia manufacturing facility to capitalize on expected high industrial growth rates in the Asia Pacific region.

ADHESIVES & PLASTICIZERS SEGMENT

Overview

In the A&P segment, Eastman manufactures adhesives resins and plasticizers which are used in the manufacture of products sold into the consumables, building and construction, health and wellness, industrial chemicals and processing, and durable goods markets. Market growth for adhesives resins in emerging markets such as China, Eastern Europe, and Latin America continues to be higher than regional economic growth, mainly due to growing use of consumables in these emerging economies. Use of non-phthalate plasticizers in the United States, Canada, and Europe continues to increase more than general economic growth due to increasing regulatory requirements and consumer preferences. Some of the segment's products are sensitive to periods of supply and demand imbalance, either when incremental capacity additions are not offset by corresponding increases in demand or when demand exceeds existing supply. Due to their functional performance attributes, certain products, including selected hydrocarbon resins, are less sensitive to the general olefins cycle. See "Eastman Chemical Company General Information - Manufacturing Streams" in this "Part I - Item 1. Business." In addition to leveraging integrated manufacturing facilities and scale of production, the segment is well positioned to capitalize on meeting evolving market needs and supporting adoption of Eastman products in new or existing customer formulations.

The A&P segment focuses on producing intermediate chemicals rather than finished products and developing long-term, strategic relationships to enable customers' growth in their end markets. In 2013, the A&P segment had sales revenue of \$1.3 billion, 14 percent of Eastman's total sales. Eastman is the world's largest non-phthalate plasticizer manufacturer and ranks as the second largest global adhesives resin manufacturer. Major competitors in this segment include large, multinational companies. The segment competes primarily based on the breadth of its product portfolio, performance, and price.

Principal Products

| Product | Description | Principal Competitors | Key Raw Materials | End-Use Applications |
|---|--|--|---|--|
| Adhesives Resins | | | | |
| Piccotac™ Regalite™ Eastotac™ Eastoflex™ | hydrocarbon resins and rosin resins mainly for hot-melt and pressure sensitive adhesives | Exxon Mobil Corporation Kolon Industries, Inc. | C9 resin oil piperylene gum rosin | Consumables (resins used in hygiene and packaging adhesives) Building & Construction (resins for construction adhesives and interior flooring) |
| Plasticizers | | | | |
| Eastman 168™ Eastman™ DOP Benzoflex™ Eastman TXIB™ | primary non-phthalate and phthalate plasticizers and a range of niche non-phthalate plasticizers | BASF SE Exxon Mobil Corporation LG Chem, Ltd. Emerald Performance Materials | propane propylene paraxylene | Building & Construction (non-phthalate plasticizers used in interior surfaces) Consumables (food packaging, packaging adhesives, and glove applications) Health & Wellness (medical devices) |

| Product Lines | Percentage of Total Segment Sales | | |
|------------------|-----------------------------------|------|------|
| | 2013 | 2012 | 2011 |
| Adhesives Resins | 52% | 55% | 56% |
| Plasticizers | 48% | 45% | 44% |

Growth

A key element of the A&P segment's strategy for growth is to leverage leading positions and market insights in high-growth hygiene, consumables, durables, and non-phthalate plasticizer applications. Eastman management believes that the ability to leverage the A&P segment's strong technical capabilities across multiple markets makes the segment uniquely positioned to meet evolving market needs and support adoption of Eastman products in new or additional customer formulations.

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

In addition, the segment is well positioned to capitalize on expected market growth in China and other parts of Asia with a 50,000 metric ton hydrogenated hydrocarbons resin plant in Nanjing, China as part of an announced joint venture with Sinopec Yangzi Petrochemical Company Limited ("YPC"), which will support expected demand growth for its products in hygiene and packaging applications. Management expects this plant to be operational in late 2015.

Also, in October 2013, the Company announced it is expanding its Eastman 168™ non-phthalate plasticizers manufacturing capacity at its Texas City, Texas site. The expansion is expected to be operational mid-2014.

ADVANCED MATERIALS SEGMENT

Overview

In the AM segment, the Company produces and markets specialty copolyesters, cellulose esters, interlayers, and aftermarket window film products that possess differentiated performance properties for value-added end uses in transportation, consumables, building and construction, durable goods, and health and wellness products. In 2013, the AM Segment had sales revenue of \$2.3 billion, 25 percent of Eastman's total sales.

Eastman has strong technical and market development capabilities that enable the segment to modify its polymers, films, and plastics to control and customize their final properties for new application development to deliver more functionality. Examples include addressing customer needs to go beyond impact strength and shatter resistance, and providing a balance of clarity and chemical resistance with Tritan™ copolyester across a diverse set of markets and applications in the specialty plastics product line and sound reduction and heat control in the interlayers product line. Additionally, these capabilities allow the Company to maintain what management believes is its leading solar control technology position in the window film market through the use of high performance sputter coatings which enhance solar heat rejection while maintaining superior optical properties.

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

Principal Products

| Product | Description | Principal Competitors | Key Raw Materials | End-Use Applications |
|---|---|---|---|--|
| Specialty Plastics | | | | |
| Eastar™ copolyesters | | Bayer AG | | |
| Eastman Tritan™ copolyester | | Styron LLC | | |
| Eastman Embrace™ copolyester | specialty copolyesters and cellulose esters | Evonik Industries AG | paraxylene | Consumables (Specialty copolyesters used in consumer packaging, personal care and cosmetics packaging, in-store fixtures and displays) |
| Eastman Spectar™ copolyester | | Saudi Basic Industries Corporation | ethylene glycol | Durable Goods (consumer housewares and appliances) |
| Eastman Aspira™ family of resins | | Mitsubishi Chemical Corporation | cellulose | Health & Wellness (medical) |
| Eastman Visualize™ Material | | S.K. Chemical Industries | | Electronic films (displays) |
| | | Sichuan Push Acetati Company Limited | | |
| | | Daicel Chemical Industries Ltd | | |
| Interlayers | | | | |
| Saflex® | laminated safety glass and specialty intermediate polyvinyl butyral ("PVB") resin | Sekisui Chemical Co., Ltd. E.I. du Pont de Nemours and Company Kuraray Co., Ltd | polyvinyl alcohol vinyl acetate monomer butyraldehyde 2-ethyl hexanol ethanol | Transportation (automotive safety glass) Building & Construction (PVB for architectural interlayers) |
| Performance Films | | | | |
| Llumar® V-kool® Gila® Flexvue® | window film products for aftermarket applied films | 3M Company Saint-Gobain S.A. Commonwealth Laminating & Coating, Inc. Garware Chemicals Limited | polyethylene terephthalate film | Transportation (automotive after-market window film) Building & Construction (residential and commercial window films) |

Percentage of Total Segment Sales

| Product Lines | 2013 | 2012 Pro Forma 2012 Combined | 2012 | 2011 |
|--------------------|------|------------------------------|------|------|
| Specialty Plastics | 53% | 52% | 69% | 100% |
| Interlayers | 34% | 34% | 23% | —% |
| Performance Films | 13% | 14% | 8% | —% |

Growth

Management believes that the segment has significant opportunities to leverage technology platforms into new products and applications, accelerate its growth, and further leverage its manufacturing capacity. Additionally, the segment is working to expand its portfolio of higher margin products in attractive end markets. Through Eastman's advantaged asset position and applications development innovation, management believes that the AM segment is well positioned for future growth. An example of Eastman's influencing the consumer purchasing decision with product design is clear handleware solutions for large containers. The interlayers product line leverages its global presence to deliver industry leading innovations to automotive and architectural end markets by collaborating with global and large regional customers. In the automotive end market, the performance films product line has industry leading technologies, recognized brands, and what management believes is one of the largest distribution and dealer networks which, when combined, position Eastman for growth, particularly in emerging markets such as Asia and Latin America. The segment's product portfolio is aligned with underlying trends toward energy efficiency in both automotive and architectural markets. Additionally, increased demand for products free of Bisphenol A has created new opportunities for various applications of copolyesters.

In 2013, the Company began the expansion of Eastman Tritan™ copolyester capacity at its Kingsport, Tennessee manufacturing facility. This expansion is expected to be operational in the second half of 2014.

The Company is also progressing on enhancements and innovations to improve its cost position in its PVB resin technology supporting growth in the transportation and building and construction markets in the Asia Pacific region. In the first half of 2014, management plans to complete evaluation of the timing of a capacity expansion at the Kuantan, Malaysia PVB manufacturing facility.

FIBERS SEGMENT

Overview

In the Fibers segment, Eastman manufactures and sells Estron™ acetate tow and Estrobond™ triacetin plasticizers for use primarily in the manufacture of cigarette filters; Estron™ natural (undyed) and Chromspun™ solution-dyed acetate yarns for use in apparel, home furnishings, and industrial fabrics; and cellulose acetate flake and acetyl raw materials for other acetate fiber producers, including the Company's new joint venture acetate tow manufacturing facility in Hefei, China. Eastman is one of the world's two largest suppliers of acetate tow and has been a market leader in the manufacture and sale of acetate tow since it began production in the early 1950s. The Company is the world's largest producer of acetate yarn and has been in this business for over 75 years. In 2013, the Fibers segment had sales revenue of \$1.4 billion, 16 percent of Eastman's total sales. The Fibers segment has been and is expected to be a strong and stable source of cash flow and earnings.

Eastman's Fibers segment customers are located in all regions of the world, yet are relatively concentrated in terms of total overall number of customers. The largest 13 customers within the Fibers segment include multinational as well as regional cigarette producers, fabric manufacturers, and other acetate fiber producers. These top 13 customers accounted for about 80 percent of the segment's total sales revenue in 2013, although the segment is not dependent on any single customer. Sales prices for a significant portion of the Fibers segment's products are typically negotiated on an annual basis. The segment maintains a strong position in acetate tow exports to China.

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

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

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

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

Principal Products

| Product | Description | Principal Competitors | Key Raw Materials | End-Use Applications |
|-----------------------------------|---|---|---|---|
| Acetate Tow | | | | |
| Estron™ | cellulose acetate tow | Celanese Corporation Solvay S.A. Daicel Corporation Mitsubishi Rayon Co. Ltd. | wood pulp methanol high sulfur coal | Tobacco (manufacture of cigarette filters) |
| Acetate Yarn | | | | |
| Estron™ Chromspun™ Cosilva™ | natural (undyed) acetate yarn solution dyed acetate yarn | Industrias del Acetato de Celulosa S.A. UAB Korelita Mitsubishi Rayon Co. Ltd. | wood pulp methanol high sulfur coal | Consumables (apparel, home furnishings, and industrial fabrics) Health & Wellness (medical tape) |
| Acetyl Chemical Products | | | | |
| Estrobond™ | cellulose diacetate flake acetic acid acetic anhydride triacetin | Jiangsu Ruijia Chemistry Co., Ltd. Polynt SPA Daicel Corporation Celanese Corporation Solvay S.A. | wood pulp methanol high sulfur coal | Tobacco (manufacture of cigarette filters) |

| Product Lines | Percentage of Total Segment Sales | | |
|---|-----------------------------------|------|------|
| | 2013 | 2012 | 2011 |
| Acetate Tow | 83% | 86% | 82% |
| Acetate Yarn and Acetyl Chemical Products | 17% | 14% | 18% |

Growth

In the Fibers segment, Eastman continues to leverage its strong customer relationships and industry knowledge to identify growth options. These growth options have been enabled primarily by its acetate flake capacity at the Kingsport, Tennessee site. Eastman's total global acetate tow capacity is approximately 210,000 metric tons. In third quarter 2013, the Company completed construction of a 30,000 metric ton acetate tow manufacturing facility in Hefei, China, in a joint venture with China National Tobacco Corporation in which the Company has 45 percent ownership. The Company supplies 100 percent of the acetate flake raw material to the joint venture from the Company's manufacturing facility in Kingsport. The Company expects to begin to recognize earnings through its equity investment, reported in "Other (income) charges, net" in the Consolidated Statement of Earnings, in the joint venture beginning in 2014. The Company continues to evaluate other growth opportunities, particularly in the Asia Pacific region.

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

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

SPECIALTY FLUIDS & INTERMEDIATES SEGMENT

Overview

The SFI segment leverages large scale and vertical integration from the acetyl and olefins streams and proprietary manufacturing technology for specialty fluids to manufacture diversified products that are sold externally for use in markets such as industrial chemicals and processing; building and construction; health and wellness; and agriculture, as well as used internally by other segments of the Company. The SFI segment has leading market positions in many of its core products, and management believes it is well-positioned in key markets for most of its major products including specialty fluids, acetyl chemical intermediates products and olefin derivatives due to its competitive cost position, scale, technology, and reliability of supply compared to competitors. In 2013, the SFI segment had sales revenue of \$2.5 billion, 27 percent of the Company's total sales.

Historically, the intermediates product line's competitive cost position has been primarily due to use of and access to lower cost raw materials such as coal, which is used in the production of acetyl stream products, and olefin feedstocks, which are used in the production of olefin derivative products. Some of the product line's products are affected by the olefins cycle. See "Eastman Chemical Company General Information - Manufacturing Streams" in this "Part I - Item 1. Business." This cyclical nature is caused by periods of supply and demand imbalance, either when incremental capacity additions are not offset by corresponding increases in demand or when demand exceeds existing supply. While management continues to take steps to reduce the impact of the trough of the olefins cycle, future SFI segment results are expected to continue to fluctuate from period to period due both to general economic conditions and olefins supply and demand. Due to timing of customer project completions, the specialty fluids product line revenues fluctuate and are, from time to time, concentrated in certain quarters. The specialty fluids product line differentiates itself with superior products backed by customer service. For example, the Therminol[®] brand offers the widest range of synthetic fluids for indirect heating and cooling to allow customers to optimize their operational efficiency.

Principal Products

| Product | Description | Principal Competitors | Key Raw Materials | End-Use Applications |
|---|--|---|--|---|
| Specialty Fluids | | | | |
| Therminol [®] Skydrol [®] | heat transfer and aviation fluids | The Dow Chemical Company Exxon Mobil Corporation | benzene phosphorous | Industrial Chemicals & Processing (heat transfer fluids for chemical processes) Commercial aviation |
| Chemical Intermediates | | | | |
| oxo alcohols & derivatives acetic acid and derivatives acetic anhydride | chemical intermediates | BASF SE The Dow Chemical Company Oxea BP plc Celanese Corporation Lonza | propane ethane propylene coal acetic acid natural gas | Industrial Chemicals & Processing Building & Construction (paint/coating applications, construction chemicals, building materials) Pharmaceuticals and agriculture Health & Wellness |
| Other Intermediates | | | | |
| ethylene acetic acid oxo alcohols polymer polymer Intermediates | olefin, chemical intermediates, and polymer intermediates | LyondellBasell Industries Celanese Corporation BP plc BASF SE | propane ethane propylene coal natural gas | Building & Construction (paint/coating applications, construction chemicals, building materials) Industrial Chemicals & Processing Packaging |

Flint Hill Resources paraxylene
 metaxylene

Percentage of Total Segment Sales

| Product Lines | 2013 | 2012 Pro Forma 2012 | | 2011 |
|------------------------|------|---------------------|-----|------|
| | | Combined | | |
| Specialty Fluids | 13% | 13% | 7% | —% |
| Chemical Intermediates | 48% | 48% | 51% | 54% |
| Other Intermediates | 39% | 39% | 42% | 46% |

Growth

A key focus for the segment is to continue to develop and access markets with high-growth potential for the Company's specialty fluids products. A major goal is to expand volumes in high-growth markets for Therminol® heat transfer fluids through market development efforts. In addition, the segment is working closely with key suppliers and customers on commercialization of Skydrol® PE-5, a state of the art fluid designed to meet the demanding requirements of next generation aircraft.

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

The Company debottlenecked its largest olefins cracking unit in Longview, Texas in first quarter 2013, primarily to produce more ethylene to improve Eastman's olefin cost position. Additionally, the Company began a Therminol® heat transfer fluid capacity expansion in Newport, Wales, which is expected to be operational in the second half of 2014 to support expected demand in the industrial chemicals and processing market. During second quarter 2012, the Company entered into an agreement with Enterprise Products Partners L.P. to purchase propylene from a planned propane dehydrogenation plant expected to be operational in 2015, expected to further improve the Company's competitive cost position compared to purchasing olefins in the North American market. Prior to completion of the plant, the Company expects to continue to benefit from a propylene market contract improving its cost position for purchased propylene beginning in 2013.

The Company continues to actively pursue options with third parties for monetizing the Company's excess ethylene capacity. The Company intends to retain its cost-advantaged integrated position to propylene which supports derivatives throughout the Company.

The Company is also actively pursuing licensing opportunities for acetyls, oxo derivatives, and mono ethylene glycol, including the announcement in fourth quarter 2013 of the development, in conjunction with a third party, of advanced proprietary technology for the production of ethylene glycol from synthesis gas-based feedstocks.

In January 2014, the Company entered into a definitive agreement to acquire the assets of BP plc's global aviation turbine engine oil business, which had 2013 annual revenues of approximately \$100 million. When added to the segment's Skydrol® aviation fluids, the acquired product portfolio is expected to enable Eastman to better meet the global aviation industry's needs. The acquisition is expected to be completed in the second quarter of 2014.

CORPORATE INITIATIVES

In addition to its business segments, the Company manages certain costs and initiatives at the corporate level, including certain R&D costs not allocated to any one operating segment. The Company uses a stage-gating process, which is a disciplined decision making framework for evaluating targeted opportunities, with a number of projects at various stages of development. As projects meet milestones, additional investment is committed to those projects. The Company continues to explore and invest in R&D initiatives that are aligned with macro trends in sustainability, consumerism, and energy efficiency such as high performance materials, advanced cellulose, and environmentally-friendly chemistry. An example of such an initiative is Eastman™ microfiber technology which leverages the Company's core competency in polymers chemistry, spinning capability, and in-house application expertise, for use in high purity air filtration, liquid filtration, and energy storage media, and with opportunities for future growth in nonwoven and textile applications. Cerfis™ technology for the building and construction market was previously included in Corporate Initiatives and is now managed within the AM segment in order to support current and future commercial applications. In fourth quarter 2013, management decided not to continue its Perennial Wood™ growth initiative.

REGIONAL BUSINESS OVERVIEW

Eastman operates as a global business with approximately 55 percent of its sales generated from outside the United States and Canada region in 2013. As the Company focuses on growth in emerging markets, the percentage of sales from outside the United States and Canada is expected to increase. With the acquisition of Solutia, the Company has expanded its international manufacturing presence, and the Company is also able to transport products globally to meet demand. While all regions continue to be affected by the uncertainty in the global economy, the degree of the impact on the various regions is dependent on the mix of the Company's segments and products in each region.

In 2013, the regional revenue by segments was as follows:

| | United States and Canada | Asia Pacific | Europe, Middle East, and Africa | Latin America |
|----------------------------------|-----------------------------|--------------|------------------------------------|---------------|
| Additives & Functional Products | 17% | 19% | 18% | 30% |
| Adhesives & Plasticizers | 17% | 5% | 19% | 18% |
| Advanced Materials | 20% | 26% | 35% | 25% |
| Fibers | 7% | 31% | 16% | 9% |
| Specialty Fluids & Intermediates | 39% | 19% | 12% | 18% |
| TOTAL | 100% | 100% | 100% | 100% |

In addition, segment revenue by region for 2013 was as follows:

| | Additives & Functional Products | Adhesives & Advanced Plasticizers Materials | Fibers | Specialty Fluids & Intermediates | Combined |
|---------------------------------|---------------------------------------|--|--------|-------------------------------------|----------|
| United States and Canada | 42% | 56% | 20% | 67% | 46% |
| Asia Pacific | 29% | 9% | 29% | 19% | 28% |
| Europe, Middle East, and Africa | 20% | 28% | 29% | 10% | 21% |
| Latin America | 9% | 7% | 5% | 4% | 5% |
| TOTAL | 100% | 100% | 100% | 100% | 100% |

The United States and Canada region contains the highest concentration of the Company's long-lived assets with approximately 75 percent located in the United States. Management believes that the location of these manufacturing

facilities provides the Company with an advantaged cost position for the Company's domestic customers, particularly for commodity and bulk products. The SFI segment accounted for approximately 40 percent of the region's revenue, as the segment is well-positioned in this region's market for most of its major products, including acetic acid and acetic anhydride, although revenues in the region can be volatile due to the dependence of this segment's selling prices on key raw material and energy costs.

The Asia Pacific region includes a portfolio of specialty products that benefit from both the emerging middle class in the region and a focused shift in China from government infrastructure spending to a consumer driven economy. The Company is responding to this growth by strengthening its position through joint ventures and acquisitions. These include a joint venture with China National Tobacco Corporation for a new 30,000 metric ton acetate tow manufacturing facility in Hefei, China completed during third quarter 2013, and from which the Company expects earnings through its equity investment, reported in "Other (income) charges, net" in the Consolidated Statement of Earnings, in the joint venture beginning in 2014. The Company also has an announced joint venture with YPC to build a hydrogenated hydrocarbon resin plant in Nanjing, China, expected to be operational in late 2015, which will be equally owned by the two companies, and is expected to produce 50,000 metric tons of the A&P segment's Regalite™ hydrocarbon resins upon completion. The Company is also evaluating capacity expansions at the Kuantan, Malaysia manufacturing facility for both Crystex® insoluble sulfur in the AFP segment and PVB resin in the AM segment. Approximately 30 percent of revenue in the region is from acetate tow products in the Fibers segment.

Company revenues in the Europe, Middle East, and Africa region have recently been affected by the ongoing economic weakness in Europe. However, regulatory requirements and consumer preferences in Europe have allowed sales of certain of the Company's products to increase more than general economic growth. Additionally, growth in the emerging economies of Eastern Europe for certain products, has been higher than global economic growth because of higher growth in GDP and per capita income. The AM segment accounted for approximately 35 percent of the region's revenue, with a high concentration of interlayers product line sales in this region.

The Company is focused on market trends in the Latin America region that include the growing use of adhesives for consumables and performance films for automotive end market applications. Revenue in the region is subject to increased volatility due to product availability and the dependence of selling prices on key raw material and energy costs for the chemical intermediates product line in the SFI segment. The AFP segment accounted for approximately 30 percent of the region's revenue.

Financial Information About Geographic Areas

For sales revenue and long-lived assets by geographic areas, see Note 21, "Segment Information", to the Company's consolidated financial statements in Part II, Item 8 of this Annual Report.

EASTMAN CHEMICAL COMPANY GENERAL INFORMATION

Seasonality and Cyclicity

The Company's earnings are typically greater in second and third quarters, and cash flows from operations are highest in the second half of the year due to seasonal demand based on general economic activity in key markets the Company serves as described in "Business Segments". Results in the A&P and the AM segments are typically weaker in fourth quarter due to seasonal downturns in key markets.

The intermediates product lines of the SFI segment and the solvents product lines of the AFP segment are impacted by the cyclicity of key end products and markets, while other segments are more sensitive to global economic conditions. Supply and demand dynamics determine profitability at different stages of business cycles and global economic conditions affect the length of each cycle.

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

Sales, Marketing, and Distribution

The Company markets and sells products primarily through a global marketing and sales organization which has a presence in the United States and in 30 other countries selling into approximately 120 countries around the world. Eastman has a marketing and sales strategy targeting industries and applications where Eastman products and services provide differentiated value. Market, customer, application, and technical expertise are critical capabilities. Through a highly skilled and specialized sales force that is capable of providing differentiated product solutions, Eastman strives to be the preferred supplier in the Company's targeted markets.

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

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

Sources and Availability of Raw Material and Energy

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

While temporary shortages of raw materials and energy may occasionally occur, these items are generally sufficiently available to cover current and projected requirements. However, their continuous availability and cost are subject to unscheduled plant interruptions occurring during periods of high demand, domestic and world market conditions, changes in government regulation, natural disasters, war or other outbreak of hostilities or terrorism or other political factors, or breakdown or degradation of transportation infrastructure. Eastman's operations or products have in the past, and may in the future, be adversely affected by these factors. The Company's raw material and energy costs as a percent of total cost of operations were approximately 60 percent, 55 percent, and 65 percent in 2013, 2012, and 2011, respectively.

Manufacturing Streams

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

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

In the olefins stream, the Company begins primarily with propane and ethane, which are cracked into the "olefin" chemicals ethylene and propylene at its facility in Longview, Texas. "Cracking" is a chemical process in which liquefied petroleum gases are converted into the more reactive olefin molecules which can then be used in the manufacture of other chemicals. Eastman operates three cracking units in Longview, Texas, and debottlenecked its largest unit in first half 2013, primarily to produce additional ethylene to improve Eastman's olefin cost position. The Company also purchases additional propylene for use at its Longview facility and its facilities outside the United States and recently entered into an agreement with Enterprise Products Partners L.P. to purchase propylene from a planned propane dehydrogenation plant expected to be operational in 2015, which is expected to further improve the Company's competitive cost position compared to purchasing propylene in the North American market. Prior to completion of the plant, the Company will continue to benefit from a propylene market contract which improves its cost position for purchased propylene. Propylene is used in chemical intermediates, which are used to produce a variety of items such as paints and coatings, automotive safety glass, and non-phthalate plasticizers. The ethylene is used to produce chemicals that Eastman's customers ultimately convert for end uses in the food industry, health and beauty products, detergents, and automotive products. Petrochemical business cycles are influenced by periods of over- and under-capacity. Capacity additions to steam cracking units around the world, combined with demand for light olefins, determine the operating rate and thus profitability of producing olefins. Historically, periodic additions of large blocks of capacity have caused profit margins of light olefins to expand and contract, resulting in "ethylene" or "olefins" cycles. The Company believes it is positioned to be less impacted by these cycles than it has been historically due to actions it has taken to leverage its diverse derivatives products to take advantage of regulatory trends and focus on more durable markets.

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

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

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

Capital Expenditures

Capital expenditures were \$483 million, \$465 million, and \$457 million in 2013, 2012, and 2011, respectively. Capital expenditures in 2013 were primarily for improvements to plants, purchases of equipment, and organic growth initiatives particularly in the SFI and AM segments. The Company expects that 2014 capital spending will be approximately \$600 million, including capital investment that will modernize and expand the Kingsport, Tennessee site, and a Therminol® heat transfer fluid capacity expansion in Newport, Wales.

Employees

Eastman employs approximately 14,000 men and women worldwide. Approximately 10 percent of the total worldwide labor force is represented by unions, mostly outside the United States.

Customers

Eastman has an extensive customer base and, while it is not dependent on any one customer, loss of certain top customers could adversely affect the Company until such business is replaced. The top 100 customers accounted for approximately 60 percent of the Company's 2013 sales revenue. No single customer accounted for 10 percent or more of the Company's consolidated sales revenue during 2013.

Intellectual Property and Trademarks

While the Company's intellectual property portfolio is an important Company asset which it expands and vigorously protects globally through a combination of patents that expire at various times, trademarks, copyrights, and trade secrets, neither its business as a whole nor any particular segment is materially dependent upon any one particular patent, trademark, copyright, or trade secret. The Company's intellectual property relates to a wide variety of products and processes and the portfolio of intellectual property was significantly expanded by the Solutia acquisition. As a producer of a broad range of advanced materials, additives and functional products, specialty chemicals, and fibers, Eastman owns over 700 active United States patents and more than 1,700 active foreign patents, expiring at various times over several years, and also owns over 4,800 active worldwide trademark applications and registrations. Eastman continues to actively protect its intellectual property. As the laws of many countries do not protect intellectual property to the same extent as the laws of the United States, Eastman cannot ensure that it will be able to adequately protect its intellectual property assets outside the United States.

The Company pursues opportunities to license proprietary technology to third parties in areas where it has determined competitive impact to its businesses will be minimal. These arrangements typically are structured to require payments at significant project milestones such as signing, completion of design, and start-up. To date, efforts have been focused on acetyls technology in the SFI segment. The Company is also actively pursuing licensing opportunities for acetyls, oxo derivatives, and mono ethylene glycol in the SFI segment, including the announcement in fourth quarter 2013 of the development, in conjunction with a third party, of advanced proprietary technology for the production of ethylene glycol from synthesis gas-based feedstocks.

Research and Development

For 2013, 2012, and 2011, Eastman's R&D expenses totaled \$193 million, \$198 million, and \$159 million, respectively.

Environmental

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

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

The Company accrues environmental costs when it is probable that the Company has incurred a liability and the amount can be reasonably estimated. In some instances, the amount cannot be reasonably estimated due to insufficient

information, particularly as to the nature and timing of future expenditures. In these cases, the liability is monitored until such time that sufficient information exists. With respect to a contaminated site, the amount accrued reflects liabilities expected to be paid out within 30 years and the Company's assumptions about remediation requirements at the site, the nature of the remedy, the outcome of discussions with regulatory agencies and other potentially responsible parties at multi-party sites, and the number and financial viability of other potentially responsible parties. Changes in the estimates on which the accruals are based, unanticipated government enforcement action, or changes in health, safety, environmental, and chemical control regulations, and testing requirements could result in higher or lower costs. The Company's cash expenditures related to environmental protection and improvement were \$285 million, \$262 million, and \$219 million, in 2013, 2012, and 2011, respectively. These amounts were primarily for operating costs associated with environmental protection equipment and facilities, but also included \$53 million and \$34 million in expenditures for engineering and construction in 2013 and 2012, respectively. Expenditures in 2012 also included costs and expenditures in the second half of the year for sites acquired in the acquisition of Solutia.

Costs of certain remediation projects included in the environmental reserve assumed in the acquisition of Solutia are subject to a cost-sharing arrangement with Monsanto Company ("Monsanto") under the provisions of the Amended and Restated Settlement Agreement effective February 28, 2008 (the "Effective Date"), into which Solutia entered with Monsanto upon its emergence from bankruptcy (the "Monsanto Settlement Agreement"). Under the provisions of the Monsanto Settlement Agreement, the Company shares responsibility with Monsanto for remediation at certain locations outside of the boundaries of plant sites in Anniston, Alabama and Sauget, Illinois (the "Shared Sites"). The Company is responsible for the funding of environmental liabilities at the Shared Sites up to a total of \$325 million from the Effective Date. If remediation costs for the Shared Sites exceed this amount, such costs will thereafter be shared equally between the Company and Monsanto. Including payments by Solutia prior to its acquisition by Eastman, \$56 million had been paid for costs at the Shared Sites as of December 31, 2013. As of December 31, 2013, an additional \$215 million has been accrued for estimated future remediation costs at the Shared Sites, over a period of thirty years.

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

Other matters concerning health, safety, and the environment are discussed in Management's Discussion and Analysis of Financial Condition and Results of Operations in Part II Item 7 and in Notes 1, "Significant Accounting Policies"; 13, "Environmental Matters"; and 23, "Reserve Rollforwards" to the Company's consolidated financial statements in Part II, Item 8 of this Annual Report.

Backlog

On January 1, 2014 and 2013, Eastman's backlog of firm sales orders represented less than 10 percent of the Company's total consolidated revenue for the previous year. These orders are primarily short-term and all orders are expected to be filled in the following year. The Company manages its inventory levels to control the backlog of products depending on customers' needs. In areas where the Company is the single source of supply, or competitive forces or customers' needs dictate, the Company may carry additional inventory to meet customer requirements.

Available Information - SEC Filings

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

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

ITEM 1A. RISK FACTORS

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

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

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EXECUTIVE OFFICERS OF THE COMPANY

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

James P. Rogers, age 62, is Executive Chairman of the Board of Directors. Mr. Rogers joined the Company in 1999 as Senior Vice President and Chief Financial Officer. He went on to hold positions of increasing responsibility, including Chief Operations Officer of Eastman Division; Executive Vice President of the Company and President of Eastman Division; and President of Eastman and Chemicals & Fibers Business Group Head. In 2008, Mr. Rogers became a Director of the Company, in 2009 became Chief Executive Officer, and in 2011 became Chairman of the Board. Prior to joining Eastman, Mr. Rogers served as Executive Vice President and Chief Financial Officer of GAF Materials Corporation, Executive Vice President, Finance, of International Specialty Products, Inc., Treasurer of Amphenol Corporation, a Vice President in the Corporate Finance group of Morgan Guaranty Trust, and as a naval aviator in the United States Navy. Mr. Rogers was appointed to his current position effective January 2014, when Mark J. Costa succeeded him as Chief Executive Officer.

Mark J. Costa, age 47, is Chief Executive Officer and a Director of Eastman Chemical Company. Mr. Costa joined the Company in June 2006 as Senior Vice President, Corporate Strategy & Marketing; was appointed Executive Vice President, Polymers Business Group Head and Chief Marketing Officer in August 2008; was appointed Executive Vice President, Specialty Polymers, Coatings and Adhesives, and Chief Marketing Officer in May 2009; and became President and a Director of the Company in May 2013. Prior to joining Eastman, Mr. Costa was a senior partner with Monitor Group ("Monitor"). He joined Monitor, a global management consulting firm, in 1988 and his experience included corporate and business unit strategies, asset portfolio strategies, innovation and marketing, and channel strategies across a wide range of industries. Mr. Costa was appointed to his current position effective January 2014.

Curtis E. Espeland, age 49, is Executive Vice President and Chief Financial Officer. Mr. Espeland joined Eastman in 1996, and has served in various financial management positions of increasing responsibility, including Director of Internal Auditing; Director of Finance, Asia Pacific; Director of Corporate Planning and Forecasting; Vice President and Controller; Vice President, Finance, Eastman Division; Vice President, Finance, Polymers; and Senior Vice President and Chief Financial Officer from 2008 until December 2013. He served as the Company's Chief Accounting Officer from December 2002 to 2008. Prior to joining Eastman, Mr. Espeland was an audit and business advisory manager with Arthur Andersen LLP in the United States, Eastern Europe, and Australia. Mr. Espeland was appointed to his current position effective January 2014.

Ronald C. Lindsay, age 55, is Chief Operating Officer. Mr. Lindsay joined Eastman in 1980 and has held a number of positions in various manufacturing and business organizations. In 2003, Mr. Lindsay was appointed Vice President and General Manager of Intermediates; in 2005 became Vice President, Performance Chemicals and Intermediates; in 2006 was appointed Senior Vice President and Chief Technology Officer; in 2008 was appointed Senior Vice President, Corporate Strategy and Regional Leadership; in May 2009 was appointed Executive Vice President, Performance Polymers and Chemical Intermediates; and in January 2011 was appointed Executive Vice President, Performance Chemicals and Intermediates, Fibers, Engineering and Construction, and Manufacturing Support. In July 2012 he was appointed Executive Vice President, A&P, Fibers, SFI, Engineering and Construction, and Manufacturing Support. He was appointed to his current position effective January 2014.

Brad A. Lich, age 46, is Executive Vice President, with responsibility for the AFP and AM segments and the marketing, sales, and pricing organizations. In 2008, Mr. Lich was appointed Vice President and General Manager of the Coatings, Adhesives, Specialty Polymers, and Inks segment, and in 2012 was appointed Vice President and General Manager of the AFP segment. Mr. Lich was appointed to his current position effective January 2014.

Michael H.K. Chung, age 60, is Senior Vice President and Chief International Ventures Officer. Mr. Chung joined Eastman in 1976, and since that time has held various management positions, primarily in the Company's chemicals

and fibers businesses. He was appointed Vice President, Fibers International Business in 2006 and in 2009, he was appointed Vice President and Managing Director, Asia Pacific Region. Mr. Chung was appointed to his current position effective January 2011.

Godefroy A.F.E. Motte, age 55, is Senior Vice President, Integrated Supply Chain and Chief Regional and Sustainability Officer. Since joining Eastman in 1985, Mr. Motte has held leadership positions in various organizations, including sales, supply chain, and manufacturing and in both the Company's chemicals and polymers businesses. He was appointed Vice President for the Europe, Middle East, and Asia ("EMEA") region for the Chemicals Division in 2001 and for the EMEA Polymers Business Group in April 2006. In January 2011, Mr. Motte was appointed Senior Vice President, Chief Regional and Sustainability Officer and was appointed to his current position effective July 2012.

Mark K. Cox, age 48, is Senior Vice President and Chief Manufacturing and Engineering Officer. Mr. Cox joined Eastman in 1986 and has served in a variety of management positions, including leadership roles within the Business Management, Manufacturing, and Technology areas. Additionally, he has held responsibility for Eastman's Corporate Six Sigma program. In August 2008, Mr. Cox was appointed Vice President, Chemicals and Fibers Technology.

Beginning in May 2009, Mr. Cox served as Vice President, Chemicals, Fibers, and Performance Polymers Technology. He was appointed Vice President, Worldwide Engineering and Construction in August 2010 and to his current position effective January 2014.

David A. Golden, age 48, is Senior Vice President, Chief Legal Officer, and Corporate Secretary. Mr. Golden has responsibility for Eastman's Legal, Corporate HSES, and Global Public Affairs and Policy organizations. He also has overall responsibility for Eastman's Ethics & Corporate Compliance program. Immediately prior to this position, he was Vice President, Associate General Counsel, and Corporate Secretary with overall responsibility for Eastman's Legal Department. Mr. Golden joined Eastman in 1995 as an attorney and has held positions of increasing responsibility, including serving as the Company's Director of Internal Audit from October 2005 to October 2007 and Vice President and Assistant General Counsel responsible for the Company's Commercial and International Law groups from 2007 to 2010. Mr. Golden assumed his current role in January 2013. Prior to joining Eastman, he worked as an attorney in the Atlanta office of the law firm of Hunton & Williams.

Perry Stuckey, III, age 54, is Senior Vice President, Chief Human Resources Officer. Mr. Stuckey joined Eastman in 2011, as Vice President, Global Human Resources, and was responsible for Eastman's human resources strategy and services worldwide. Mr. Stuckey's work experience spans more than 25 years, including a variety of global human resource management positions in manufacturing, industrial automation, and bio-technology organizations, including Hill-Rom Company, Rockwell Automation, and Monsanto Company. Mr. Stuckey was appointed to his current position in January 2013.

Stephen G. Crawford, age 49, is Senior Vice President and Chief Technology Officer, including responsibility for corporate innovation. Mr. Crawford joined Eastman in 1987. Since then, he has held several leadership positions of increasing responsibility in the manufacturing and technology organizations, including Vice President, Specialty Polymers and Coatings Technology. In February 2013, Mr. Crawford was appointed Vice President, Functional Products Technology. In that position he had responsibility for Coatings, Adhesives and Plasticizers, Fibers and Rubber Additives Technology development. Mr. Crawford was appointed to his current position effective January 2014.

Scott V. King, age 45, is Vice President, Controller and Chief Accounting Officer. Since joining Eastman in 1999 as Manager, Corporate Consolidations and External Reporting, Mr. King has held various positions of increasing responsibility in the financial organization, and was appointed Vice President and Controller in August 2007. Prior to joining Eastman, Mr. King was an audit and business advisory manager with PricewaterhouseCoopers LLP. Mr. King was appointed to his current position in September 2008.

ITEM 2. PROPERTIES

At December 31, 2013, Eastman Chemical Company ("Eastman" or the "Company") owned or operated 45 manufacturing sites in 16 countries. Utilization of these facilities may vary with product mix and economic, seasonal, and other business conditions; however, none of the principal plants are substantially idle. The Company's plants, including approved expansions, generally have sufficient capacity for existing needs and expected near-term growth. These plants are generally well maintained, in good operating condition, and suitable and adequate for their use. Unless otherwise indicated, all of the properties are owned. The locations and general character of the Company's manufacturing facilities are:

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

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

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

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

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| Location | Segment using manufacturing facility | | | | |
|---|--------------------------------------|--------------------------|--------------------|--------|----------------------------------|
| | Additives & Functional Products | Adhesives & Plasticizers | Advanced Materials | Fibers | Specialty Fluids & Intermediates |
| Asia Pacific | | | | | |
| Suzhou, China ⁽¹⁾⁽²⁾⁽³⁾ | | | x | | x |
| Wuhan, China ⁽⁴⁾ | | x | | | |
| Zibo, China ⁽⁵⁾ | x | x | | | |
| Kashima, Japan | x | | | | |
| Ulsan, Korea | | | | x | |
| Kuantan, Malaysia ⁽¹⁾ | x | | x | | |
| Jurong Island, Singapore ⁽¹⁾ | x | x | | | x |
| Hsinchu, Taiwan ⁽¹⁾ | | | x | | |
| Latin America | | | | | |
| Itupeva, Brazil ⁽⁶⁾ | x | | | | |
| Mauá, Brazil | | x | | | |
| Santo Toribio, Mexico | | | x | | |
| Uruapan, Mexico | | x | | | |

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

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

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

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

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

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

Eastman has 50 percent or less ownership in joint ventures with manufacturing facilities which the Company operates as follows:

| Location | Segment using manufacturing facility | | | | |
|-----------------|--------------------------------------|--------------------------|--------------------|--------|----------------------------------|
| | Additives & Functional Products | Adhesives & Plasticizers | Advanced Materials | Fibers | Specialty Fluids & Intermediates |
| Asia Pacific | | | | | |
| Hefei, China | | | | x | |
| Nanjing, China | | x | | | |
| Shenzhen, China | | | x | | |

Eastman has distribution facilities at all of its plant sites. In addition, the Company owns or leases approximately 160 stand-alone distribution facilities in the United States and 26 other countries. Corporate headquarters are in Kingsport, Tennessee. The Company's regional headquarters are in Miami, Florida; Capelle aan den IJssel, the Netherlands; Zug, Switzerland; Singapore; and Kingsport, Tennessee. Technical service is provided to the Company's customers from technical service centers in Kingsport, Tennessee; Palo Alto, California; Canoga Park, California; Springfield, Massachusetts; Akron, Ohio; Martinsville, Virginia; Kirkby, England; Middelburg, the Netherlands; Shanghai, China; and Singapore. In addition to Eastman's regional customer service centers located in Kingsport, Tennessee; St. Louis, Missouri; Miami, Florida (Latin America); Capelle aan den IJssel, the Netherlands; Zaventem, Belgium; Koeln, Germany; Shanghai, China; and Singapore, the Company also has customer service offices located in 10 other countries around the world.

A summary of properties, classified by type, is included in Note 4, "Properties and Accumulated Depreciation", to the Company's consolidated financial statements in Part II, Item 8 of this Annual Report on Form 10-K (this "Annual Report").

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ITEM 3. LEGAL PROCEEDINGS

General

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

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 to defend and indemnify Solutia against any Legacy Tort Claims (as defined in the Monsanto Settlement Agreement) and Solutia agreed to retain responsibility for certain tort claims, if any, that may arise from Solutia's conduct after its spinoff from Pharmacia Corporation ("Pharmacia") (f/k/a Monsanto), which occurred on September 1, 1997. Solutia, which became a wholly owned subsidiary of Eastman on July 2, 2012 upon the Company's acquisition of Solutia, has been named as a defendant in several such proceedings, and has submitted the matters to Monsanto as Legacy Tort Claims. To the extent these matters are not within the meaning of Legacy Tort Claims, Solutia could potentially be liable thereunder. In connection with the completion of its acquisition of Solutia, Eastman guaranteed the obligations of Solutia and Eastman was added as an indemnified party under the Monsanto Settlement Agreement.

Environmental Protection Agency Enforcement Action

On January 30, 2014, the Company received a Notice of Enforcement ("NOE") from the Texas Commission on Environmental Quality ("TCEQ") alleging the Company and Flint Hills Resources, Inc. ("FHR") are jointly and severally liable for violating certain state air quality regulations and certain provisions in TCEQ-issued air quality-related permits. FHR owns assets at the Company's Longview, Texas, site that are operated by the Company. The Company intends to vigorously defend against these allegations and believes that the ultimate resolution of this proceeding will not have a material impact on the Company's financial condition, results of operations, or cash flows. This disclosure is made pursuant to SEC Regulations, which require disclosure of administrative proceedings commenced under environmental laws that involve governmental authorities as parties and potential monetary sanctions of at least \$100,000.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

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

(a) Eastman Chemical Company's ("Eastman" or the "Company") common stock is traded on the New York Stock Exchange (the "NYSE") under the symbol "EMN". The following table presents the high and low sales prices of the common stock on the NYSE and the cash dividends per share declared by the Company's Board of Directors for each quarterly period of 2013 and 2012.

| | | High | Low | Cash Dividends Declared |
|------|----------------|---------|---------|-------------------------------|
| 2013 | First Quarter | \$75.18 | \$67.27 | \$0.30 |
| | Second Quarter | 74.62 | 63.48 | 0.30 |
| | Third Quarter | 82.91 | 69.75 | 0.30 |
| | Fourth Quarter | 82.96 | 72.62 | 0.35 |
| 2012 | First Quarter | \$55.14 | \$39.16 | \$0.26 |
| | Second Quarter | 55.53 | 41.54 | 0.26 |
| | Third Quarter | 59.56 | 46.18 | 0.26 |
| | Fourth Quarter | 68.22 | 52.93 | 0.30 |

As of December 31, 2013, there were 152,467,174 shares of the Company's common stock issued and outstanding, which shares were held by 21,131 stockholders of record. These shares include 50,798 shares held by the Company's charitable foundation. The Company's Board of Directors has declared a cash dividend of \$0.35 per share during the first quarter of 2014, payable on April 1, 2014 to stockholders of record on March 14, 2014. Quarterly dividends on common stock, if declared by the Board of Directors, are usually paid on or about the first business day of the month following the end of each quarter. The payment of dividends is a business decision made by the Board of Directors from time to time based on the Company's earnings, financial position and prospects, and such other considerations as the Board considers relevant. Accordingly, while management currently expects that the Company will continue to pay a quarterly cash dividend, its dividend practice may change at any time.

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

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

(b) Not applicable.

(c) Purchases of Equity Securities by the Issuer and Affiliated Purchasers

| Period | Total Number of Shares Purchased (1) | Average Price Paid Per Share (2) | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (3) | Approximate Dollar Value (in millions) that May Yet Be Purchased Under the Plans or Programs (3) |
|-----------------------|---|-------------------------------------|---|---|
| October 1 - 31, 2013 | 385,888 | \$77.74 | 385,888 | \$255 |
| November 1 - 30, 2013 | 573,642 | \$78.19 | 573,642 | \$210 |
| December 1 - 31, 2013 | 674,238 | \$74.55 | 674,238 | \$160 |
| Total | 1,633,768 | \$76.58 | 1,633,768 | |

(1) All shares were repurchased under a Company announced repurchase plan.

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

In February 2011, the Board of Directors authorized repurchase of up to \$300 million of the Company's outstanding common stock. The Company completed the \$300 million of repurchases in August 2013, acquiring a total of 6,141,999 shares. In May 2013, the Board of Directors authorized an additional repurchase of up to \$300 million of the Company's outstanding common stock at such times, in such amounts, and on such terms, as determined to be in the best interests of the Company. The May 2013 authorization was in addition to the remaining amount available

(3) under the February 2011 repurchase authorization. As of December 31, 2013, a total of 1,828,526 shares have been repurchased under this authorization for a total amount of \$140 million. During 2013, the Company repurchased 3,212,886 shares of common stock for a cost of approximately \$238 million. In February 2014, the Board of Directors authorized repurchase of up to an additional \$1 billion of the Company's outstanding common stock. For additional information, see Note 15, "Stockholders' Equity", to the Company's consolidated financial statements in Part II, Item 8 of this Annual Report.

ITEM 6. SELECTED FINANCIAL DATA

| Operating Data (Dollars in millions, except per share amounts) | Year Ended December 31, | | | | |
|---|-------------------------|---------|---------|---------|---------|
| | 2013 | 2012 | 2011 | 2010 | 2009 |
| Sales | \$9,350 | \$8,102 | \$7,178 | \$5,842 | \$4,396 |
| Operating earnings | 1,862 | 800 | 937 | 844 | 276 |
| Earnings from continuing operations | 1,172 | 443 | 607 | 418 | 116 |
| Earnings (loss) from discontinued operations | — | — | 9 | 9 | (22) |
| Gain from disposal of discontinued operations | — | 1 | 31 | — | — |
| Net earnings | 1,172 | 444 | 647 | 427 | 94 |
| Less: Net earnings attributable to noncontrolling interest | 7 | 7 | 1 | 2 | 5 |
| Net earnings attributable to Eastman | \$1,165 | \$437 | \$646 | \$425 | \$89 |
| Amounts attributable to Eastman stockholders | | | | | |
| Earnings from continuing operations, net of tax | \$1,165 | \$436 | \$606 | \$416 | \$111 |
| Earnings (loss) from discontinued operations, net of tax | — | 1 | 40 | 9 | (22) |
| Net earnings attributable to Eastman stockholders | \$1,165 | \$437 | \$646 | \$425 | \$89 |
| Basic earnings per share attributable to Eastman | | | | | |
| Earnings from continuing operations | \$7.57 | \$2.99 | \$4.34 | \$2.88 | \$0.77 |
| Earnings (loss) from discontinued operations | — | 0.01 | 0.29 | 0.07 | (0.16) |
| Net earnings | \$7.57 | \$3.00 | \$4.63 | \$2.95 | \$0.61 |
| Diluted earnings per share attributable to Eastman | | | | | |
| Earnings from continuing operations | \$7.44 | \$2.92 | \$4.24 | \$2.81 | \$0.76 |
| Earnings (loss) from discontinued operations | — | 0.01 | 0.28 | 0.07 | (0.15) |
| Net earnings | \$7.44 | \$2.93 | \$4.52 | \$2.88 | \$0.61 |
| Statement of Financial Position Data | | | | | |
| Current assets | \$2,840 | \$2,699 | \$2,302 | \$2,047 | \$1,735 |
| Net properties | 4,290 | 4,181 | 3,107 | 3,219 | 3,110 |
| Goodwill | 2,637 | 2,644 | 406 | 375 | 315 |
| Other intangibles | 1,761 | 1,849 | 101 | 92 | 43 |
| Total assets | 11,845 | 11,710 | 6,184 | 5,986 | 5,515 |
| Current liabilities | 1,470 | 1,364 | 1,114 | 1,070 | 800 |
| Long-term borrowings | 4,254 | 4,779 | 1,445 | 1,598 | 1,604 |
| Total liabilities | 7,970 | 8,682 | 4,283 | 4,327 | 3,975 |
| Total Eastman stockholders' equity | 3,796 | 2,943 | 1,870 | 1,627 | 1,513 |
| Dividends declared per share | 1.250 | 1.080 | 0.990 | 0.895 | 0.880 |

On July 2, 2012, the Company completed its acquisition of Solutia Inc. ("Solutia"), a global leader in performance materials and specialty chemicals. The fair value of total consideration transferred was \$4.8 billion, consisting of cash of \$2.6 billion, net of cash acquired; equity in the form of Eastman stock of approximately \$700 million; and the assumption and subsequent repayment of Solutia's debt at fair value of \$1.5 billion. For additional information see Note 2, "Acquisitions and Investments in Joint Ventures", to the Company's consolidated financial statements in Part II, Item 8 of this Annual Report on Form 10-K (this "Annual Report"). As of the date of acquisition, results of the acquired Solutia businesses are included in Eastman results.

In third quarter 2011, the Company completed three acquisitions. Eastman acquired Sterling Chemicals, Inc. ("Sterling"), a single site North American petrochemical producer, to produce non-phthalate plasticizers in the Adhesives & Plasticizers segment, including Eastman 168™ non-phthalate plasticizers, and acetic acid in the Specialty Fluids & Intermediates segment, and Eastman also acquired Scandiflex do Brasil S.A. Indústrias Químicas ("Scandiflex"), a manufacturer of plasticizers located in São Paulo, Brazil, which is reported in the Adhesives & Plasticizers segment. In addition, the Company acquired Dynaloy, LLC ("Dynaloy"), a producer of formulated solvents, which is reported in the Additives & Functional Products segment. The acquisitions were accounted for as business combinations. For additional information see Part II, Item 8 – "Notes to the Audited Consolidated Financial Statements" – Note 2, "Acquisitions and Investments in Joint Ventures" and Note 16, "Asset Impairments and Restructuring Charges (Gains), Net" of this Annual Report.

In 2011, the Company completed the sale of the polyethylene terephthalate ("PET") business, related assets at the Columbia, South Carolina site, and technology of its Performance Polymers segment. The PET business, assets, and technology sold were substantially all of the Performance Polymers segment. Performance Polymers segment operating results are presented as discontinued operations for all periods presented and are therefore not included in results from continuing operations in accordance with accounting principles generally accepted ("GAAP") in the United States. For additional information, see Note 20, "Discontinued Operations", to the Company's consolidated financial statements in Part II, Item 8 of this Annual Report.

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

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This Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") is based upon the consolidated financial statements for Eastman Chemical Company ("Eastman" or the "Company"), which have been prepared in accordance with accounting principles generally accepted ("GAAP") in the United States, and should be read in conjunction with the Company's consolidated financial statements and related notes included elsewhere in this 2013 Annual Report on Form 10-K (this "Annual Report"). All references to earnings per share ("EPS") contained in this report are diluted earnings per share unless otherwise noted.

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

CRITICAL ACCOUNTING ESTIMATES

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

Allowances for Doubtful Accounts

The Company maintains allowances for doubtful accounts for estimated losses resulting from the inability of its customers to make required payments. The Company believes, based on historical results, the likelihood of actual write-offs having a material impact on financial results is low. However, if one of the Company's key customers was to file for bankruptcy, or otherwise be unwilling or unable to make its required payments, or there was a significant slow-down in the economy, the Company could increase its allowances. This could result in a material charge to earnings. The Company's allowance for doubtful accounts was \$12 million and \$8 million at December 31, 2013 and 2012, respectively.

Impairment of Long-Lived Assets

Definite-lived Assets

Properties and equipment and definite-lived intangible assets to be held and used by the Company are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The review of these long-lived assets is performed at the asset group level, which is the lowest level for which identifiable cash flows are largely independent of the cash flows of other assets and liabilities. If the carrying amount is not considered to be recoverable, an analysis of fair value is triggered. An impairment is recorded for the excess of the carrying amount of the asset over the fair value.

Goodwill

The Company conducts testing of goodwill annually in third quarter of each year or when impairment indicators arise, whichever comes first. The testing of goodwill is performed at the reporting unit level which the Company has determined to be its components. Components are defined as one level below an operating segment, and in order to be a reporting unit, the component must 1) be a "business" as defined by applicable accounting standards (an integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing a return in the form of dividends, lower costs, or other economic benefits directly to the investors or other owners, member, or participants); 2) have discrete financial information available; and 3) be reviewed regularly by Company operating segment management. The Company aggregates certain components into reporting units based on economic similarities. During 2013 testing, the Company did not evaluate the acquired Solutia components for aggregation,

instead testing each component as a separate reporting unit. Management will continue to review further aggregation as those components become integrated with Eastman.

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

The Company uses an income approach and applies a fair value methodology based on discounted cash flows in testing the carrying value of goodwill for each reporting unit. The key assumptions and estimates used in the Company's 2013 goodwill impairment testing included a long-term projection of revenues, expenses, and cash flows, the estimated discount rate, and the estimated tax rate. The Company believes these assumptions are consistent with those a hypothetical market participant would use given circumstances that were present at the time the estimates were made. However, actual results and amounts may be significantly different from the Company's estimates. In addition, the use of different estimates or assumptions could result in materially different determinations. If the estimated fair value of a reporting unit is determined to be less than the carrying value of the net assets of the reporting unit including goodwill, additional steps, including an allocation of the estimated fair value to the assets and liabilities of the reporting unit, would be necessary to determine the amount, if any, of goodwill impairment.

As a result of the tests performed during 2013, there was no impairment of the Company's goodwill. Fair values substantially exceeded the carrying values for each reporting unit tested, except for the performance films (a part of the Advanced Materials operating segment) and rubber chemicals (a part of the Additives & Functional Products operating segment) reporting units acquired from Solutia. As anticipated, because of the recent acquisition of Solutia, the fair value of these two reporting units was not substantially in excess of the carrying value.

Goodwill of \$743 million is allocated to the rubber chemicals reporting unit, whose fair value exceeded its carrying value by 16 percent. Two of the most critical assumptions used in the calculation of the fair value of the rubber chemicals reporting unit are the long-term growth rate and the discount rate. The Company performed a sensitivity analysis on both of those assumptions. The fair value exceeds the carrying value with either a 1 percent decrease in the long-term growth rate or a 1 percent increase in the discount rate.

Goodwill of \$532 million is allocated to the performance films reporting unit, whose fair value exceeded its carry value by 11 percent. Two of the most critical assumptions used in the calculation of the fair value of the performance films reporting unit are the long-term growth rate and the discount rate. The Company performed a sensitivity analysis on both of those assumptions. The fair value exceeds the carrying value with a 1 percent decrease in the long-term growth rate; however, with a 1 percent increase in the discount rate, the fair value was 2 percent less than the carrying value.

In order to determine the discount rate, the Company uses a market perspective weighted average cost of capital ("WACC") approach. The WACC is calculated incorporating weighted average returns on debt and equity from market participants. Therefore, changes in the market, which are beyond the control of the Company, may have an impact on future calculations of estimated fair value.

Indefinite-lived Intangible Assets

The Company conducts testing of indefinite-lived intangible assets annually in third quarter of each year or when impairment indicators arise, whichever comes first. The carrying value of indefinite-lived intangible assets is considered to be impaired when the fair value, as established by appraisal or based on discounted future cash flows of certain related products, is less than their respective carrying values.

Indefinite-lived intangible assets, consisting of various trademarks, are tested for potential impairment by comparing the estimated fair value to the carrying amount. The Company uses an income approach, specifically the relief from royalty method, to test indefinite-lived intangible assets. The estimated fair value of the trademarks is determined based on an assumed royalty rate savings, discounted by the calculated market participant WACC plus a 1 percent risk premium. The carrying value of indefinite-lived intangible assets is considered to be impaired when the estimated fair value is less than the carrying value of the trademarks.

As of July 1, 2013, the testing date, the Company had \$568 million in indefinite-lived intangible assets. There was no impairment of the Company's indefinite-lived intangible assets as a result of the tests performed during third quarter 2013.

The Company will continue to monitor both goodwill and indefinite-lived intangible assets for any indication of triggering events which might require additional testing before the next required annual impairment test.

As the Company's assumptions related to long-lived assets are subject to change, write-downs may be required in the future. If estimates of fair value less costs to sell are revised, the carrying amount of the related asset is adjusted, resulting in a charge to earnings.

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

Environmental Costs

The Company accrues environmental remediation costs when it is probable that the Company has incurred a liability at a contaminated site and the amount can be reasonably estimated. When a single amount cannot be reasonably estimated but the cost can be estimated within a range, the Company accrues the minimum amount. This undiscounted accrued amount reflects liabilities expected to be paid out within 30 years and the Company's assumptions about remediation requirements at the contaminated site, the nature of the remedy, the outcome of discussions with regulatory agencies and other potentially responsible parties at multi-party sites, and the number and financial viability of other potentially responsible parties. Changes in the estimates on which the accruals are based, unanticipated government enforcement action, or changes in health, safety, environmental, and chemical control regulations and testing requirements could result in higher or lower costs. Estimated future environmental expenditures for remediation costs ranged from the minimum or best estimate of \$341 million to the maximum of \$581 million at December 31, 2013. The maximum estimated future costs are considered to be reasonably possible and are inclusive of the amounts accrued at December 31, 2013.

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

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

The Company's reserve, including the above remediation, was \$368 million at December 31, 2013 and \$394 million at December 31, 2012, representing the minimum or best estimate for remediation costs and the best estimate of the amount accrued to date over the regulated assets' estimated useful lives for asset retirement obligation costs.

Pension and Other Postretirement Benefits

The Company maintains defined benefit pension plans that provide eligible employees with retirement benefits. Additionally, Eastman subsidizes life insurance, health care, and dental benefits for eligible retirees, and health care and dental benefits for retirees' eligible survivors. The costs and obligations related to these benefits reflect the Company's assumptions related to general economic conditions (particularly interest rates) and expected return on plan assets. In July 2012, as part of its acquisition of Solutia, the Company assumed Solutia's U.S. and non-U.S. defined benefit pension and other postretirement benefit plans. Prior to the acquisition, the Solutia U.S. pension plans had been closed to new participants and were no longer accruing additional benefits. In 2011, as part of its acquisition of Sterling Chemicals, Inc. ("Sterling"), the Company assumed Sterling's U.S. pension plans. For valuing the obligations and assets of the Company's U.S. and non-U.S. defined benefit pension plans, the Company assumed weighted average discount rates of 4.59 percent and 4.18 percent, respectively, and a weighted average expected return on plan assets of 7.83 percent and 5.78 percent, respectively, at December 31, 2013. The Company assumed a weighted average discount rate of 4.75 percent for its other postretirement benefit plans and an expected return on

plan assets of 3.75 percent for its voluntary employees' beneficiary association retiree trust at December 31, 2013. The cost of providing plan benefits also depends on demographic assumptions including retirements, mortality, turnover, and plan participation.

The December 31, 2013 projected benefit obligation and 2014 expense are affected by year-end 2013 assumptions. The following table illustrates the sensitivity to changes in the Company's long-term assumptions in the expected return on assets and assumed discount rate for all pension plans and other postretirement benefit plans. The sensitivities below are specific to the time periods noted. They also may not be additive, so the impact of changing multiple factors simultaneously cannot be calculated by combining the individual sensitivities shown.

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

| Change in Assumption | Impact on 2014 Pre-tax Benefits Expense (Excludes mark-to-market impact) for Pension Plans | Impact on December 31, 2013 Projected Benefit Obligation for Pension Plans | | Impact on 2014 Pre-tax Benefits Expense (Excludes mark-to-market impact) for Other Postretirement Benefit Plans | Impact on December 31, 2013 Benefit Obligation for Other Postretirement Benefit Plans |
|--|--|--|---------------|---|---|
| | | U.S. | Non-U.S. | | |
| 25 basis point decrease in discount rate | -\$2 Million | +\$57 Million | +\$32 Million | -\$1 Million | +\$26 Million |
| 25 basis point increase in discount rate | +\$2 Million | -\$55 Million | -\$31 Million | +\$1 Million | -\$24 Million |
| 25 basis point decrease in expected return on assets | +\$7 Million | No Impact | No Impact | +\$1 Million | No Impact |
| 25 basis point increase in expected return on assets | -\$7 Million | No Impact | No Impact | -\$1 Million | No Impact |

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

The Company uses fair value accounting for plan assets. If actual experience differs from long-term assumptions for asset returns and discount rates which were used in determining the current year expense, the difference is recognized immediately as part of the mark-to-market ("MTM") net gain or loss in the fourth quarter of each year, and any other quarter in which an interim remeasurement is triggered. The MTM net gain or loss applied to earnings from continuing operations in 2013, 2012, and 2011 due to the actual experience versus assumptions of returns on plan assets and discount rates for the defined benefit pension and other postretirement benefit plans were net gain of \$383 million, net loss of \$276 million, and net loss of \$144 million, respectively. The 2013 net MTM gain included an \$86 million gain triggered by an other postretirement benefit plan amendment. At December 31, 2013, the Company's weighted-average assumed discount rate was 4.55 percent, up significantly from the prior year, resulting in an actuarial gain of approximately \$280 million. In addition, overall there were significant increases in pension asset

values of approximately \$105 million due to asset values appreciating in excess of the assumed weighted-average rate of return. The actual return of approximately \$275 million or 11 percent less the expected return of approximately \$170 million or 7.13 percent results in the approximately \$105 million increase.

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

The Company does not anticipate that a change in pension and other postretirement benefit obligations caused by a change in the assumed discount rate during 2014 will impact the cash contributions to be made to the pension plans during 2014. While the amount of the change in these obligations does not correspond directly to cash funding requirements, it is an indication of the amount the Company will be required to contribute to the plans in future years. The amount and timing of such cash contributions is dependent upon interest rates, actual returns on plan assets, retirement, attrition rates of employees, and other factors. For further information regarding pension and other postretirement benefit obligations, see Note 11, "Retirement Plans", to the Company's consolidated financial statements in Part II, Item 8 of this Annual Report.

Litigation and Contingent Liabilities

From time to time, the Company and its operations are parties to or targets of lawsuits, claims, investigations and proceedings, including product liability, personal injury, asbestos, patent and intellectual property, commercial, contract, environmental, antitrust, health and safety, and employment matters, which are handled and defended in the ordinary course of business. The Company accrues a liability for such matters when it is probable that a liability has been incurred and the amount can be reasonably estimated. When a single amount cannot be reasonably estimated but the cost can be estimated within a range, the Company accrues the minimum amount. The Company expenses legal costs, including those expected to be incurred in connection with a loss contingency, as incurred. Based upon facts and information currently available, the Company believes the amounts reserved are adequate for such pending matters; however, results of operations could be affected by monetary damages, costs or expenses, and charges against earnings in particular periods.

Income Taxes

The Company records deferred tax assets and liabilities based on temporary differences between the financial reporting and tax bases of assets and liabilities, applying enacted tax rates expected to be in effect for the year in which the differences are expected to reverse. The ability to realize deferred tax assets is evaluated through the forecasting of taxable income using historical and projected future operating results, the reversal of existing temporary differences, and the availability of tax planning strategies. Valuation allowances are recorded to reduce deferred tax assets when it is more likely than not that a tax benefit will not be realized. In the event that the actual outcome from future tax consequences differs from management estimates and assumptions, the resulting change to the provision for income taxes could have a material adverse impact on the consolidated results of operations and statement of financial position. As of December 31, 2013, a valuation allowance of \$204 million has been provided against the deferred tax assets.

The Company recognizes income tax positions that meet the more likely than not threshold and accrues interest related to unrecognized income tax positions, which is recorded as a component of the income tax provision.

Purchase Accounting

In general, the acquisition method of accounting requires companies to record assets acquired and liabilities assumed at their respective fair values at the date of acquisition. The Company estimates fair value using the exit price approach which is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly market. An exit price is determined from the viewpoint of unrelated market participants as a whole, in the principal or most advantageous market, and may result in the Company valuing assets or liabilities at a fair value that is not reflective of the Company's intended use of the assets or liabilities. Any amount of the purchase price paid that is in excess of the estimated fair values of net assets acquired or liabilities assumed is recorded in the line item goodwill on the Company's consolidated balance sheets. Management's judgment is used to determine the estimated fair values

assigned to assets acquired and liabilities assumed, as well as asset lives for property, plant and equipment and amortization periods for intangible assets, and can materially affect the Company's results of operations.

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

NON-GAAP AND PRO FORMA COMBINED FINANCIAL MEASURES

In addition to evaluating the Company's financial condition, results of operations, liquidity and cash flows as reported in accordance with GAAP, Eastman 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 arise from Eastman's normal, or "core", business and operations, or are otherwise of an unusual or non-recurring nature. These transactions, costs, and losses or gains relate to, among other things, cost reduction, growth and profitability improvement initiatives, and other events outside of core business operations (such as MTM losses or gains for pension and other postretirement benefit plans, typically in the fourth quarter of each year and any quarters in which an interim remeasurement is triggered). Because non-core 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 our results of these non-core 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 discloses these non-GAAP 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', performance, make resource allocation decisions and evaluate organizational and individual performance in determining certain performance-based compensation. Non-GAAP 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 measure, but to consider such measures with the most directly comparable GAAP measure.

The non-core or non-recurring items excluded by management in its evaluation of certain results in this Annual Report are:

Costs resulting from the sale of acquired Solutia inventories at fair value, net of the last-in, first-out ("LIFO") impact of these inventories (as required by purchase accounting, these inventories were marked to fair value, and were sold in 2012);

Solutia acquisition, financing, transaction, and integration costs, including the costs and fees for borrowings used to complete the Solutia acquisition and pre-acquisition interest expense for acquisition-related borrowings, which resulted from non-core transactions not expected to impact Eastman's results consistently;

MTM pension and other postretirement benefit plans gains and losses, net, which are actuarial gains and losses measured as the changes in discount rates and other actuarial assumptions and the difference between actual and expected returns on plan assets during the period. These actuarial gains and losses were primarily due to changes in discount rates reflective of changes in global financial market conditions and interest rates on high-grade corporate bonds and changes in other postretirement benefit plan obligations resulting from a plan amendment, and did not directly arise from Eastman's core business and operations; and

Asset impairments and restructuring charges and gains, net, which, other than certain severance costs, are not cash transactions impacting profitability,

in each case for the periods and in the amounts in the table below.

Non - GAAP Financial Measures -- Excluded Non-Core or Non-Recurring Items

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| (Dollars in millions) | 2013 | 2012 | 2011 |
|---|------|-------|------|
| Non-core or non-recurring items impacting operating earnings: | | | |
| Additional costs of acquired Solutia inventories | \$— | \$79 | \$— |
| Transaction costs related to the acquisition of Solutia | — | 28 | — |
| Integration costs related to the acquisition of Solutia | 36 | 16 | — |
| Mark-to-market pension and other postretirement benefit (gains) losses, net | (383 |) 276 | 144 |
| Asset impairments and restructuring charges (gains), net | 76 | 120 | (8) |
| Non-core or non-recurring items impacting earnings before income taxes: | | | |
| Financing costs related to the acquisition of Solutia | — | 32 | — |

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

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

- Gross profit,
- Selling, general, and administrative ("SG&A") expenses,
- Research and development ("R&D") expenses,
- Operating earnings,
- Net interest expense,
- Other charges (income), net,
- Provision for income taxes,
- Earnings from continuing operations, and
 - Diluted earnings per share.

For more detail about MTM pension and other postretirement benefit plans gains and losses, net, including actual and expected return on plan assets and the components of the net gains or loss, see "CRITICAL ACCOUNTING ESTIMATES -- Pension and Other Postretirement Benefits" above and "Note 11, Retirement Plans - Summary of Changes and - Summary of Benefit Costs and Other Amounts Recognized in Other Comprehensive Income" to the Company's consolidated financial statements in Part II, Item 8 of this Annual Report.

In addition to the above, in order to provide the most meaningful comparison of results, some of the following corporate and segment discussion and analysis includes both actual results for all periods presented and results on a "pro forma combined" basis. The unaudited pro forma combined information is based on the historical consolidated financial statements of both Eastman and Solutia and has been prepared to illustrate the effects of the Company's acquisition of Solutia, assuming the acquisition of Solutia had been consummated January 1, 2011, the beginning of the earliest period presented. The accompanying pro forma combined financial information does not give pro forma effect to any other transactions or events. For 2012, pro forma combined results reflect actual results for third and fourth quarter 2012 plus pro forma combined results for the first six months 2012. Pro forma combined sales revenue, operating earnings, and discussion include pro forma combined for the first six months of 2012 and all of 2011.

The unaudited pro forma combined information is not necessarily indicative of the results of operations, or the financial position, that would have actually occurred had the acquisition been completed as of the dates indicated, nor is it indicative of the future operating results, or financial position, of Eastman. The unaudited pro forma combined information does not reflect future events that may have occurred or may still occur after the acquisition of Solutia, including the potential realization of any future operating cost savings (synergies) or restructuring activities or other costs related to the planned integration of Solutia and yet to be incurred, and does not consider potential impacts of current market conditions on revenues or expense efficiencies.

The unaudited pro forma combined information reflects only the combination of Eastman and Solutia. The unaudited pro forma combined financial results include certain adjustments for additional depreciation and amortization expense based upon the fair value step-up and estimated useful lives of Solutia depreciable fixed assets and limited-life amortizable assets acquired in the transaction. Additionally, in the preparation of unaudited pro forma combined sales and earnings from continuing operations, Solutia's historical consolidated results have been retrospectively adjusted for the change in accounting methodology for pension and other postretirement benefit plans actuarial losses and gains adopted by Eastman during first quarter 2012. The information also includes adjustments to Solutia exclusions from operating earnings in order to be consistent with Eastman's non-GAAP presentation.

These non-GAAP and pro forma combined financial measures, and the accompanying reconciliations of the non-GAAP financial measures to the most comparable GAAP measures, are presented in "2013 Overview", "Results

of Operations", and "Summary by Operating Segment" in this MD&A.

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

In addition to the non-GAAP measures presented in this Annual Report and other periodic reports, from time to time management evaluates and discloses to investors and securities analysts the non-GAAP measure cash provided by operating activities excluding certain non-core or non-recurring items ("cash provided by operating activities, as adjusted") when analyzing, among other things, business performance, liquidity and financial position, and performance-based compensation. Eastman management uses this non-GAAP measure in conjunction with the GAAP measure cash provided by operating activities because it believes it is a more appropriate metric to evaluate the cash flows from Eastman's core operations that are available to grow the business and create stockholder value, and because it allows for a more consistent period-over-period presentation of such amounts. In its evaluation, Eastman 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 continuing operations and the decisions to undertake or not to undertake such activities may be made irrespective of the cash generated from continuing operations. From time to time, management discloses 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.

Similarly, from time to time, Eastman discloses to investors and securities analysts a non-GAAP measure of free cash flow, which management defines as cash provided by operating activities, as adjusted, described above, less the amounts of capital expenditures and dividends, as management believes such items are generally funded from available cash and, as such, should be considered in determining free cash flow. Eastman management believes this is the appropriate metric to use to evaluate the Company's overall ability to generate cash to fund future operations, inorganic growth opportunities, and to meet the Company's debt repayment obligations. 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 potential future cash available for various initiatives 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.

2013 OVERVIEW

Eastman's portfolio of specialty businesses holds leading market positions and manufactures products that enhance performance in a variety of end markets such as transportation, building and construction, and consumables. Management believes that despite ongoing economic uncertainty, certain of the Company's key end markets, including transportation and building and construction, benefited during 2013 from continued economic growth in Asia and modest economic growth in the United States. The Additives & Functional Products ("AFP") segment had higher sales volume in solvents product lines, attributed to strengthened coatings demand in the building and construction market. The Advanced Materials ("AM") segment had higher sales volume for Eastman Tritan™ copolyester in the durable goods market and in interlayers product lines, attributed to strengthened demand in transportation markets. While the Adhesives & Plasticizers ("A&P") segment experienced weakened demand for adhesives resins used in the consumables market, particularly tapes, labels, and packaging, the segment continued to benefit from the substitution of phthalate plasticizers with non-phthalate plasticizers, particularly in the building and construction market. Management expects continued challenges in the A&P segment. Eastman management believes that the Company's global market and manufacturing presence, combined with global trends such as energy efficiency, a rising middle class in emerging economies, and increased focus on health and wellness, will continue to support the Company's achievement of its growth objectives in the long term.

The Company generated sales revenue of \$9.4 billion and \$8.1 billion for 2013 and 2012, respectively. Sales revenue in 2013 increased compared with 2012 primarily due to sales volume in first six months 2013 from the acquired

Solutia product lines in the AM, AFP, and Specialty Fluids & Intermediates ("SFI") segments. Sales volume also increased as a result of higher sales volume in solvents product lines in the AFP segment and higher sales volume for Eastman Tritan™ copolyester in the AM segment, partially offset by weakened demand for adhesives resins in the A&P segment.

On a pro forma combined basis, sales revenue was \$9.4 billion and \$9.1 billion in 2013 and 2012, respectively. Sales revenue increased compared with 2012 primarily due to higher sales volume in all other operating segments more than offsetting lower sales volume in the A&P segment.

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

Operating earnings were \$1.9 billion in 2013 compared to \$800 million in 2012. Excluding the non-core or non-recurring items referenced in "Non-GAAP and Pro Forma Combined Financial Measures", operating earnings were \$1.6 billion in 2013 and \$1.3 billion in 2012. Operating earnings increased primarily due to earnings from acquired Solutia product lines, higher volumes and higher capacity utilization resulting in lower unit costs, and lower raw material and energy costs more than offsetting slightly lower selling prices. These increases were partially offset by higher SG&A expense. Operating earnings increased in all operating segments, with the exception of A&P which had both lower sales volume and selling prices. Operating earnings also benefited from decreased "Other" loss primarily due to lower operating costs for the Perennial Wood™ growth initiative which the Company has decided not to continue.

On a pro forma combined basis, operating earnings were \$1.9 billion in 2013 compared to \$940 million in 2012. In addition to the non-core or non-recurring items referenced in "Non-GAAP and Pro Forma Combined Financial Measures", pro forma combined operating earnings in 2012 also included \$5 million for restructuring charges related to Solutia's acquisition of Southwall Technologies Inc. ("Southwall"). Excluding these non-core or non-recurring items, operating earnings increased primarily due to higher sales volume and higher capacity utilization, and lower raw material and energy costs more than offsetting lower selling prices. Operating earnings increased particularly in the Fibers and AM segments, partially offset by lower operating earnings in the A&P segment. These increases were partially offset by higher SG&A. Pro forma combined operating earnings also increased due to lower operating costs for the Perennial Wood™ growth initiative.

Earnings from continuing operations were \$1.2 billion in 2013 compared to \$436 million in 2012. Earnings from continuing operations per diluted share were \$7.44 in 2013 compared to \$2.92 in 2012. Excluding the non-core or non-recurring items referenced in "Non-GAAP and Pro Forma Combined Financial Measures", earnings from continuing operations in 2013 and 2012 were \$1.0 billion and \$802 million, respectively. Excluding these items, earnings from continuing operations per diluted share for 2013 and 2012 were \$6.44 and \$5.38, respectively.

Eastman generated \$1.3 billion in cash from operating activities in 2013, compared to \$1.1 billion cash generated from operating activities during 2012. The increase was primarily due to increased cash earnings from the Company's businesses and the absence of one-time payments related to the July 2, 2012 acquisition of Solutia partially offset by an increase in working capital requirements, higher income tax payments, and higher interest payments. The Company reduced long-term borrowings by \$525 million in 2013.

In 2013, the Company progressed on both inorganic (external growth through joint ventures and acquisitions) and organic (internal) growth initiatives, including:

- substantially completing the integration of Solutia, which:

 - broadened Eastman's global presence;

 - established a combined platform with extensive organic growth opportunities through complementary technologies and business capabilities, and an overlap of key end markets; and

 - expanded Eastman's portfolio of sustainable products and products with leading market positions;

 - in the AFP segment, completing an expansion of ethylene oxide derivative capacity in Longview, Texas in second quarter 2013 to meet demand in the coatings markets;

 - in the AM segment, beginning the expansion of Eastman Tritan™ copolyester capacity at the Kingsport, Tennessee manufacturing facility which is expected to be operational in the second half of 2014 to meet demand for Eastman Tritan™ copolyester;

 - in the Fibers segment, completing a new 30,000 metric ton acetate tow manufacturing facility in Hefei, China during third quarter 2013 in a joint venture with China National Tobacco Corporation to meet customer growth; and

 - in the SFI segment:

debottlenecking its largest olefins cracking unit in Longview, Texas in first quarter 2013, primarily to produce additional ethylene to improve Eastman's olefin cost position; and beginning a Therminol® heat transfer fluid capacity expansion in Newport, Wales, which is expected to be operational in the second half of 2014 to support expected demand in the industrial chemicals and processing market.

In addition, in January 2014 the Company entered into a definitive agreement to acquire the assets of BP plc's global aviation turbine engine oil business. The acquisition is expected to be completed in the second quarter of 2014, and the acquired business will become a part of the SFI segment.

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

RESULTS OF OPERATIONS

The Company's results of operations as presented in the Company's consolidated financial statements in Part II, Item 8 of this Annual Report are summarized and analyzed below.

SUMMARY OF CONSOLIDATED RESULTS

| (Dollars in millions) | 2013 Compared to 2012 | | | 2012 Compared to 2011 | | | |
|-----------------------|-----------------------|---------|----|-----------------------|---------|----|----|
| | 2013 | 2012 | % | 2012 | 2011 | % | |
| Sales | \$9,350 | \$8,102 | 15 | % \$8,102 | \$7,178 | 13 | % |
| Volume effect | | | 15 | % | | 14 | % |
| Price effect | | | — | % | | (1 |)% |
| Exchange rate effect | | | — | | | — | |