

EASTMAN CHEMICAL CO
Form 10-Q
May 05, 2015
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549
FORM 10-Q

(Mark
One)

☒ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE
ACT OF 1934
For the quarterly period ended March 31, 2015
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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

YES ☒ NO ☐

Indicate by check mark whether the registrant has submitted electronically 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 ☐

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 the definitions 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 ☐ (Do not check if a smaller reporting company)

Smaller reporting company ☐

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

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

Class	Number of Shares Outstanding at March 31, 2015
Common Stock, par value \$0.01 per share	148,658,115

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FORWARD-LOOKING STATEMENTS

Certain statements made in this Quarterly Report are "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act, Section 27A of the Securities Act of 1933, as amended and Section 21E of the Securities and Exchange Act of 1934, as amended. Forward-looking statements are all statements, other than statements of historical fact, that may be made by 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- Risk Factors" in Item 2 of this Quarterly Report.

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

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COMPREHENSIVE INCOME AND RETAINED EARNINGS

	First Quarter	
(Dollars in millions, except per share amounts)	2015	2014
Sales	\$2,443	\$2,305
Cost of sales	1,787	1,710
Gross profit	656	595
Selling, general and administrative expenses	180	168
Research and development expenses	56	53
Asset impairments and restructuring charges, net	109	13
Operating earnings	311	361
Net interest expense	66	42
Other (income) charges, net	(11	) (3
Earnings before income taxes	256	322
Provision for income taxes	84	88
Net earnings	\$172	\$234
Less: Net earnings attributable to noncontrolling interest	1	1
Net earnings attributable to Eastman	\$171	\$233
Basic earnings per share attributable to Eastman	\$1.15	\$1.54
Diluted earnings per share attributable to Eastman	\$1.14	\$1.52
Comprehensive Income		
Net earnings including noncontrolling interest	\$172	\$234
Other comprehensive income (loss), net of tax		
Change in cumulative translation adjustment	(212	) 4
Defined benefit pension and other postretirement benefit plans:		
Amortization of unrecognized prior service credits included in net periodic costs	(4	) (4
Derivatives and hedging:		
Unrealized gain during period	55	—
Reclassification adjustment for (gain) loss included in net income	(3	) (3
Total other comprehensive income (loss), net of tax	(164	) (3
Comprehensive income including noncontrolling interest	8	231
Comprehensive income attributable to noncontrolling interest	1	1
Comprehensive income attributable to Eastman	\$7	\$230
Retained Earnings		
Retained earnings at beginning of period	\$4,545	\$4,012
Net earnings attributable to Eastman	171	233
Cash dividends declared	(60	) (54
Retained earnings at end of period	\$4,656	\$4,191

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

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UNAUDITED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	March 31, 2015	December 31, 2014
(Dollars in millions, except per share amounts)		
Assets		
Current assets		
Cash and cash equivalents	\$ 196	\$ 214
Trade receivables, net	998	936
Miscellaneous receivables	218	264
Inventories	1,447	1,509
Other current assets	307	250
Total current assets	3,166	3,173
Properties		
Properties and equipment at cost	10,885	11,026
Less: Accumulated depreciation	5,928	5,939
Net properties	4,957	5,087
Goodwill	4,419	4,486
Intangible assets, net of accumulated amortization	2,821	2,905
Other noncurrent assets	471	421
Total assets	\$ 15,834	\$ 16,072
Liabilities and Stockholders' Equity		
Current liabilities		
Payables and other current liabilities	\$ 1,413	\$ 1,721
Borrowings due within one year	351	301
Total current liabilities	1,764	2,022
Long-term borrowings	7,293	7,248
Deferred income tax liabilities	1,023	946
Post-employment obligations	1,488	1,498
Other long-term liabilities	744	768
Total liabilities	12,312	12,482
Stockholders' equity		
Common stock (\$0.01 par value – 350,000,000 shares authorized; shares issued – 216,637,630 and 216,256,971 for 2015 and 2014, respectively)	2	2
Additional paid-in capital	1,829	1,817
Retained earnings	4,656	4,545
Accumulated other comprehensive loss	(441)	(277)
	6,046	6,087
Less: Treasury stock at cost (68,030,313 shares for 2015 and 67,660,313 shares for 2014)	2,603	2,577
Total Eastman stockholders' equity	3,443	3,510
Noncontrolling interest	79	80
Total equity	3,522	3,590
Total liabilities and stockholders' equity	\$ 15,834	\$ 16,072

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

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UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollars in millions)	First Three Months	
	2015	2014
Cash flows from operating activities		
Net earnings	\$172	\$234
Adjustments to reconcile net earnings to net cash provided by (used in) operating activities:		
Depreciation and amortization	145	107
Asset impairment charges	89	8
Provision for deferred income taxes	16	32
Changes in operating assets and liabilities, net of effect of acquisitions and divestitures:		
(Increase) decrease in trade receivables	(91	) (118
(Increase) decrease in inventories	21	(116
Increase (decrease) in trade payables	(108	) (21
Pension and other postretirement contributions (in excess of) less than expenses	(23	) (12
Variable compensation (in excess of) less than expenses	(80	) (93
Other items, net	(50	) (51
Net cash provided by (used in) operating activities	91	(30
Cash flows from investing activities		
Additions to properties and equipment	(125	) (122
Proceeds from sale of assets	4	4
Additions to capitalized software	(1	) (1
Net cash used in investing activities	(122	) (119
Cash flows from financing activities		
Net increase in commercial paper borrowings	93	257
Proceeds from borrowings	—	125
Dividends paid to stockholders	(59	) (53
Treasury stock purchases	(26	) (260
Dividends paid to noncontrolling interest	(2	) (3
Proceeds from stock option exercises and other items, net	11	32
Net cash provided by financing activities	17	98
Effect of exchange rate changes on cash and cash equivalents	(4	) (1
Net change in cash and cash equivalents	(18	) (52
Cash and cash equivalents at beginning of period	214	237
Cash and cash equivalents at end of period	\$196	\$185

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

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NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements have been prepared by Eastman Chemical Company (the "Company" or "Eastman") in accordance and consistent with the accounting policies stated in the Company's 2014 Annual Report on Form 10-K and should be read in conjunction with the consolidated financial statements in Part II, Item 8 of the Company's 2014 Annual Report on Form 10-K. The December 31, 2014 financial position data included herein was derived from the audited consolidated financial statements included in the 2014 Form 10-K but does not include all disclosures required by accounting principles generally accepted in the United States ("GAAP"). The unaudited consolidated financial statements are prepared in conformity with GAAP and of necessity include some amounts that are based upon management estimates and judgments. Future actual results could differ from such current estimates. The unaudited consolidated financial statements include assets, liabilities, sales revenue, and expenses of all majority-owned subsidiaries and joint ventures in which a controlling interest is maintained. Eastman accounts for other joint ventures and investments where it exercises significant influence on the equity basis. Intercompany transactions and balances are eliminated in consolidation.

Off Balance Sheet Financing Arrangements

The Company assumed the rights and obligations under non-recourse factoring facilities as part of the acquisition of Taminco Corporation ("Taminco"). The non-recourse factoring facilities have a combined limit of \$170 million (the U.S. Dollar equivalent of the €158 million commitment amount as of March 31, 2015) and are committed until December 2017. These arrangements include receivables in the United States, Belgium, Germany, and Finland, and are subject to various eligibility requirements. The Company sells the receivables at face value but receives funding (approximately 85 percent) net of a deposit amount until collections are received from customers for the receivables sold. The total amount of cumulative receivables sold in first quarter 2015 was \$269 million. The total amount of cumulative receivables sold during the year ended December 31, 2014 since the acquisition of Taminco on December 5, 2014 was \$70 million. As part of the program, the Company continues to service the sold receivables at market rates with no servicing assets or liabilities recognized. The amounts of sold receivables outstanding under the non-recourse factoring facilities were \$118 million and \$105 million at March 31, 2015 and December 31, 2014, respectively. The fair value of the receivables sold equals the carrying value at the time of the sale, and no gain or loss is recorded. The Company is exposed to a credit loss of up to 10 percent on sold receivables.

2. ACQUISITIONS

Taminco Corporation

On December 5, 2014, the Company completed its acquisition of Taminco, a global specialty chemical company. The fair value of total consideration transferred was \$2.8 billion, consisting of cash of \$1.7 billion, net of cash acquired, and repayment of Taminco's debt of \$1.1 billion. There has been no change to the preliminary purchase price allocation since disclosed in the Company's 2014 Annual Report on Form 10-K, see Note 2, "Acquisitions", to the consolidated financial statements in Part II, Item 8 of the Company's 2014 Annual Report on Form 10-K.

In first quarter 2015, the Company recognized \$4 million in integration and transaction costs related to the acquisition. In 2014, the Company recognized \$15 million in transaction and integration costs, and \$13 million in pre-close financing costs related to the acquisition. Integration and transaction costs were expensed as incurred and are included in the "Selling, general and administrative expenses" line item and pre-close financing costs are included in the "Other (income) charges, net" and "Net interest expense" line items in the Consolidated Statements of Earnings, Comprehensive Income and Retained Earnings.

Commonwealth Laminating & Coating, Inc.

On December 11, 2014, the Company acquired Commonwealth Laminating & Coating, Inc. ("Commonwealth") for a total cash purchase price of \$438 million including the repayment of debt. There has been no change to the preliminary purchase price allocation since disclosed in the Company's 2014 Annual Report on Form 10-K, see Note 2, "Acquisitions", to the consolidated financial statements in Part II, Item 8 of the Company's 2014 Annual Report on Form 10-K.

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NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

In first quarter 2015, the Company recognized \$2 million in integration costs related to the acquisition. In 2014, the Company recognized \$7 million in transaction and integration costs related to the acquisition. Integration and transaction costs were expensed as incurred and are included in the "Selling, general and administrative expenses" line item in the Consolidated Statements of Earnings, Comprehensive Income and Retained Earnings. As required by purchase accounting, acquired inventories were marked to fair value. In first quarter 2015, the remaining portion of these inventories was sold resulting in an increase in cost of sales of \$7 million.

3. INVENTORIES

	March 31, 2015	December 31, 2014
(Dollars in millions)		
At FIFO or average cost (approximates current cost)		
Finished goods	\$1,150	\$1,130
Work in process	255	288
Raw materials and supplies	504	553
Total inventories	1,909	1,971
LIFO Reserve	(462)	(462)
Total inventories	\$1,447	\$1,509

Inventories valued on the LIFO method were approximately 55 percent at both March 31, 2015 and December 31, 2014.

4. PAYABLES AND OTHER CURRENT LIABILITIES

	March 31, 2015	December 31, 2014
(Dollars in millions)		
Trade creditors	\$705	\$827
Derivative hedging liability	214	227
Accrued payrolls, vacation, and variable-incentive compensation	92	191
Other	402	476
Total payables and other current liabilities	\$1,413	\$1,721

Included in "Other" are certain accruals for interest payable, dividends payable, post-employment obligations, payroll deductions and employee benefits, accrued taxes, the current portion of environmental liabilities, and other payables and accruals.

5. PROVISION FOR INCOME TAXES

	First Quarter 2015	2014
(Dollars in millions)		
Provision for income taxes	\$84	\$88
Effective tax rate	33	% 27 %

The first quarter 2015 effective tax rate was negatively impacted by limited deductibility of costs for shutdown of the Workington, UK acetate tow manufacturing site.

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NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

6. BORROWINGS

(Dollars in millions)	March 31, 2015	December 31, 2014
Borrowings consisted of:		
3% notes due 2015	\$250	\$250
2.4% notes due 2017	999	998
6.30% notes due 2018	168	169
5.5% notes due 2019	250	250
2.7% notes due 2020	798	798
4.5% notes due 2021	250	250
3.6% notes due 2022	906	903
7 1/4% debentures due 2024	244	244
7 5/8% debentures due 2024	54	54
3.8% notes due 2025	796	796
7.60% debentures due 2027	222	222
4.8% notes due 2042	497	497
4.65% notes due 2044	877	877
Credit facilities and commercial paper borrowings	1,328	1,235
Capital leases	5	6
Total borrowings	7,644	7,549
Borrowings due within one year	351	301
Long-term borrowings	\$7,293	\$7,248

Credit Facility and Commercial Paper Borrowings

In connection with the acquisition of Taminco, Eastman entered into a \$1.0 billion five-year Term Loan Agreement. As of March 31, 2015, the Term Loan Agreement balance outstanding was \$1.0 billion with an interest rate of 1.43 percent. As of December 31, 2014, the Term Loan Agreement balance outstanding was \$1.0 billion with an interest rate of 1.41 percent. Borrowings under the Term Loan Agreement are subject to interest at varying spreads above quoted market rates.

The Company has access to a \$1.25 billion revolving credit agreement (the "Credit Facility") expiring October 2019. Borrowings under the Credit Facility are subject to interest at varying spreads above quoted market rates and a commitment fee is paid on the total unused commitment. At March 31, 2015 and December 31, 2014, the Company had no outstanding borrowings under the Credit Facility.

The Credit Facility provides liquidity support for commercial paper borrowings and general corporate purposes. Accordingly, any outstanding commercial paper borrowings reduce capacity for borrowings available under the Credit Facility. Given the expiration date of the Credit Facility, any commercial paper borrowings supported by the Credit Facility are classified as long-term borrowings because the Company has the ability and intent to refinance such borrowings on a long-term basis. At March 31, 2015 the Company's commercial paper borrowings were \$328 million with a weighted average interest rate of 0.56 percent. At December 31, 2014 the Company's commercial paper borrowings were \$235 million with a weighted average interest rate of 0.47 percent.

The Company also has a \$250 million line of credit under its accounts receivable securitization agreement (the "A/R Facility"), expiring April 2017. Borrowings under the A/R Facility are subject to interest rates based on a spread over the lender's borrowing costs, and the Company pays a fee to maintain availability of the A/R Facility. At March 31,

2015 and December 31, 2014 the Company had no outstanding borrowings under the A/R Facility. During first quarter 2014, \$125 million of the available amount under the A/R Facility was borrowed and then repaid during second quarter 2014.

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NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

The Term Loan Agreement, Credit Facility, and the A/R Facility contain a number of customary covenants and events of default, including the maintenance of certain financial ratios. The Company was in compliance with all such covenants for all periods presented. Total available borrowings under the Credit Facility and A/R Facility were \$1,172 million and \$1,265 million as of March 31, 2015 and December 31, 2014, respectively. The Company would not violate applicable covenants for these periods if the total available amounts of the facilities had been borrowed.

Fair Value of Borrowings

The Company has classified its long-term borrowings at March 31, 2015 and December 31, 2014 under the fair value hierarchy as defined in the accounting policies in Note 1, "Significant Accounting Policies", to the consolidated financial statements in Part II, Item 8 of the Company's 2014 Annual Report on Form 10-K. The fair value for fixed-rate debt securities is based on current market prices and is classified as Level 1. The fair value for the Company's other borrowings, which include the Term Loan Agreement, A/R Facility, commercial paper, and capital leases equals the carrying value and is classified as Level 2.

Fair Value Measurements at March 31, 2015

(Dollars in millions)	Recorded Amount March 31, 2015	Total Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Long-term borrowings	\$7,293	\$7,733	\$6,501	\$1,232	\$—

Fair Value Measurements at December 31, 2014

(Dollars in millions)	Recorded Amount December 31, 2014	Total Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Long-term borrowings	\$7,248	\$7,557	\$6,366	\$1,191	\$—

7.DERIVATIVES

Hedging Programs

The Company is exposed to market risks, such as changes in foreign currency exchange rates, commodity prices, and interest rates. To mitigate these market risk factors and their effects on the cash flows of the underlying transaction, the Company uses various derivative financial instruments when appropriate in accordance with the Company's hedging strategy and policies. Designation is performed on a specific exposure basis to support hedge accounting. The changes in fair value of these hedging instruments are offset in part or in whole by corresponding changes in the anticipated cash flows of the underlying exposures being hedged. The Company does not enter into derivative transactions for speculative purposes.

For further information on hedging programs, see Note 10, "Derivatives", to the consolidated financial statements in Part II, Item 8 of the Company's 2014 Annual Report on Form 10-K.

Fair Value Hedges

Fair value hedges are defined as derivative or non-derivative instruments designated as and used to hedge the exposure to changes in the fair value of an asset or a liability or an identified portion thereof that is attributable to a particular risk. For derivative instruments that are designated and qualify as fair value hedges, the gain or loss on the derivative as well as the offsetting loss or gain on the hedged item attributable to the hedged risk are recognized in current earnings. In 2014, the Company entered into interest rate swaps to hedge the interest rate risk on the 3.6% notes due 2022. As of March 31, 2015 and December 31, 2014, the total notional amount of the Company's interest rate swaps was \$275 million.

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NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Fair Value Measurement of Derivatives Designated as Fair Value Hedging Instruments

(Dollars in millions)		Fair Value Measurement	
Derivative Assets	Statement of Financial Position Location	March 31, 2015	December 31, 2014
Interest rate swap	Other noncurrent assets	\$10	\$5

Derivatives' Fair Value Hedging Relationships

(Dollars in millions)		Three Months Ended	
		Amount of Gain/ (Loss)	
		Recognized in Income on	
		Derivatives	
Derivatives in Fair Value Hedging Relationships	Consolidated Statement of Earnings Location of Gain/(Loss) Recognized in Income on Derivatives	March 31, 2015	March 31, 2014
Interest rate swaps	Net interest expense	\$4	\$—

Cash Flow Hedges

Cash flow hedges are derivative instruments designated as and used to hedge the exposure to variability in expected future cash flows that is attributable to a particular risk. For derivative instruments that are designated and qualify as a cash flow hedge, the effective portion of the gain or loss on the derivative is reported as a component of other comprehensive income, net of income taxes and reclassified into earnings in the same period or periods during which the hedged transaction affects earnings. Gains and losses on the derivatives representing either hedge ineffectiveness or hedge components excluded from the assessment of effectiveness are recognized in current earnings.

Total notional amounts	March 31, 2015	December 31, 2014
Foreign Exchange Forward and Option Contracts (in millions)		
EUR/USD (in EUR)	€732	€810
EUR/USD (in approximate USD equivalent)	\$800	\$1,000
JPY/USD (in JPY)	¥4,200	¥4,800
JPY/USD (in approximate USD equivalent)	\$35	\$40
Commodity Forward and Collar Contracts		
Contract ethylene sales (in thousand metric tons)	8	14
Feedstock (in million barrels)	30	33
Feedstock (in thousand metric tons)	23	30
Energy (in million million british thermal units)	28	25
Interest rate swaps for the future issuance of debt (in millions)	\$500	\$500

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NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Fair Value Measurement of Derivatives Designated as Cash Flow Hedging Instruments

(Dollars in millions)		Fair Value Measurements Significant Other Observable Inputs	
Derivative Assets	Statement of Financial Position Location	March 31, 2015	December 31, 2014
Cash Flow Hedges			
Commodity contracts	Other current assets	\$1	\$2
Foreign exchange contracts	Other current assets	94	61
Foreign exchange contracts	Other noncurrent assets	124	71
		\$219	\$134

(Dollars in millions)		Fair Value Measurements Significant Other Observable Inputs	
Derivative Liabilities	Statement of Financial Position Location	March 31, 2015	December 31, 2014
Cash Flow Hedges			
Commodity contracts	Payables and other current liabilities	\$182	\$193
Commodity contracts	Other long-term liabilities	253	289
Foreign exchange contracts	Payables and other current liabilities	7	10
Forward starting interest rate swap contracts	Other long-term liabilities	31	16
		\$473	\$508

Derivatives' Hedging Relationships

(Dollars in millions)	First Quarter		Location of gain/(loss) reclassified from Accumulated Other Comprehensive Income into income (effective portion)	Pre-tax amount of gain/(loss) reclassified from Accumulated Other Comprehensive Income into income (effective portion)		
	Change in amount after tax of gain/(loss) recognized in Other Comprehensive Income on derivatives (effective portion)					
Derivatives' Cash Flow Hedging Relationships	March 31, 2015	March 31, 2014		March 31, 2015	March 31, 2014	
Commodity contracts	\$5	\$(2)	) Sales Cost of Sales	\$2 (16	\$—) 8
Foreign exchange contracts	55	(2) Sales	21	(1)
Forward starting interest rate swap contracts	(8) 1	Net interest expense	(2) (2)
	\$52	\$(3)	\$5	\$5	

Hedging Summary

Monetized positions and mark-to-market gains and losses from raw materials and energy, currency, and certain interest rate hedges that were included in accumulated other comprehensive income before taxes totaled losses of \$348 million at March 31, 2015 and \$66 million at March 31, 2014. Losses increased in 2015 compared to 2014 as a result of a sharp decline in commodity prices, particularly propane, partially offset by increased gains resulting from a weaker Euro and Japanese Yen. If realized, \$107 million net losses as of March 31, 2015 will be reclassified into earnings during the next 12 months. Ineffective portions of hedges are immediately recognized in cost of sales or other charges (income), net.

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NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

The gains or losses on nonqualifying derivatives or derivatives that are not designated as hedges are marked to market and reported in the line item "Other (income) charges, net" of the Unaudited Consolidated Statements of Earnings, and, in all periods presented, represent foreign exchange derivatives denominated in multiple currencies and are transacted and settled in the same quarter. The Company recognized \$11 million net losses during first quarter 2015 on nonqualifying derivatives. There were no net losses or gains during first quarter 2014.

Fair Value Measurements

For additional information on fair value measurement, see Note 1, "Significant Accounting Policies", to the consolidated financial statements in Part II, Item 8 of the Company's 2014 Annual Report on Form 10-K.

The following chart shows the gross financial assets and liabilities valued on a recurring basis.

(Dollars in millions)		Fair Value Measurements at March 31, 2015		
Description	March 31, 2015	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Derivative Assets	\$229	\$—	\$228	\$1
Derivative Liabilities	(473)	) —	(473)) —
	\$ (244)	) \$—	\$ (245)	) \$1

(Dollars in millions)		Fair Value Measurements at December 31, 2014		
Description	December 31, 2014	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Derivative Assets	\$139	\$—	\$137	\$2
Derivative Liabilities	(508)	) —	(508)) —
	\$ (369)	) \$—	\$ (371)	) \$2

The majority of the Company's derivative assets are classified as Level 2. Level 2 fair value is based on estimates using standard pricing models. These standard pricing models use inputs which are derived from or corroborated by observable market data such as interest rate yield curves and currency spot and forward rates. The fair value of commodity contracts is derived using forward curves supplied by an industry recognized and unrelated third party. In addition, on an ongoing basis, the Company tests a subset of its valuations against valuations received from the transaction's counterparty to validate the accuracy of its standard pricing models. Counterparties to these derivative contracts are highly rated financial institutions which the Company believes carry minimal risk of nonperformance.

All of the Company's derivative contracts are subject to master netting arrangements, or similar agreements, which provide for the option to settle contracts on a net basis when they settle on the same day and in the same currency. In addition, these arrangements provide for a net settlement of all contracts with a given counterparty in the event that the arrangement is terminated due to the occurrence of default or a termination event. The Company has elected to present the derivative contracts on a gross basis in the Unaudited Consolidated Statements of Financial Position. Had it chosen to present the derivatives contracts on a net basis, it would have a derivative in a net asset position of \$222 million and a derivative in a net liability position of \$466 million as of March 31, 2015. The Company does not have any cash collateral due under such agreements.

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8. RETIREMENT PLANS

As described in more detail below, Eastman offers various postretirement benefits to its employees.

Defined Benefit Pension Plans and Other Postretirement Benefit Plans

Eastman maintains defined benefit pension plans that provide eligible employees with retirement benefits. In addition, Eastman provides a subsidy for life insurance, health care, and dental benefits to eligible retirees hired prior to January 1, 2007, and a subsidy for health care and dental benefits to retirees' eligible survivors. Costs recognized for these benefits are recorded using estimated amounts, which may change as actual costs derived for the year are determined.

For additional information regarding retirement plans, see Note 11, "Retirement Plans", to the consolidated financial statements in Part II, Item 8 of the Company's 2014 Annual Report on Form 10-K.

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

(Dollars in millions)	First Quarter				Other	
	Pension Plans				Postretirement	
	2015		2014		2015	2014
	U.S.	Non-U.S.	U.S.	Non-U.S.		
Components of net periodic benefit (credit) cost:						
Service cost	\$9	\$4	\$10	\$4	\$2	\$2
Interest cost	22	6	25	8	10	11
Expected return on assets	(36)	) (9	) (36	) (10	) (2	) (2
Amortization of:						
Prior service (credit) cost	(1	) —	(1	) —	(6	) (6
Net periodic benefit (credit) cost	\$(6	) \$1				