EASTMAN CHEMICAL CO
Form 10-K
February 27, 2015

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

(Mark One)

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2014
OR
[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____ to _____

Commission file number 1-12626

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

Delaware	62-1539359
(State or other jurisdiction of incorporation or organization)	(I.R.S. employer identification no.)
200 South Wilcox Drive Kingsport, Tennessee	37662
(Address of principal executive offices)	(Zip Code)

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

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

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

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

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	Yes	No
Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.	[X]	
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act.		[X]
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.	[X]	
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).	[X]	
Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.	[X]	

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

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

(Do not check if a smaller reporting company)

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

The aggregate market value (based upon the $87.35 closing price on the New York Stock Exchange on June 30, 2014) of the 148,065,837 shares of common equity held by non-affiliates as of December 31, 2014 was $12,933,550,862 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, 2014 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 148,647,456 shares of common stock of the registrant were outstanding at December 31, 2014.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive Proxy Statement for the 2015 Annual Meeting of Stockholders (the "2015 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.

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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- Risk Factors" in Part II, Item 7 of this Annual Report.

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

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PART I

ITEM 1. BUSINESS

CORPORATE OVERVIEW

Eastman Chemical Company ("Eastman" or the "Company") is a global specialty 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 51 manufacturing sites and equity interests in four manufacturing joint ventures in 15 countries that supply products to customers throughout the world. The Company's headquarters and largest manufacturing site are located in Kingsport, Tennessee.

The Company completed four acquisitions in 2014. On June 2, 2014, the Company acquired BP plc's global aviation turbine engine oil business (the "aviation turbine oil business"). On August 6, 2014, the Company acquired Knowlton Technologies, LLC ("Knowlton"), a leader in the design, accelerated prototyping, and manufacture of wet-laid nonwovens in filtration, friction, and custom designed composite webs. On December 5, 2014, Eastman acquired Taminco Corporation (”Taminco”), a global specialty chemical company. On December 11, 2014 Eastman acquired Commonwealth Laminating & Coating, Inc. (“Commonwealth”), a specialty films business. As of the date of acquisitions, results of the acquired businesses are included in Eastman results. For additional information on these acquisitions see Note 2 "Acquisitions" to the Company's consolidated financial statements in Part II, Item 8 of this Annual Report on Form 10-K (this "Annual Report"). As required by Securities and Exchange Commission ("SEC") rules, certain pro forma combined financial information giving effect to the acquisition of Taminco is presented in the Company’s Current Report on Form 8-K/A filed with the SEC on February 19, 2015.

On July 2, 2012, the Company acquired 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 certain results on a pro forma combined basis, giving effect to the acquisition of Solutia as if it had been completed at the beginning of 2012. 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.

Eastman's businesses 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"). Taminco’s former specialty amines and crop protection businesses are managed and reported in the AFP segment. The acquired Commonwealth business is managed and reported in the AM segment. Taminco's former functional amines business and the acquired aviation turbine oil business are managed and reported in the SFI segment. Eastman management believes that the Company's end-market diversity is a source of strength, and that many of the markets into which the Company’s products are sold are benefiting from longer-term global trends such as energy efficiency, a rising middle class in emerging economies, and an increased focus on health and wellness. Management believes that these trends, combined with the diversity of the Company's end markets, facilitate more consistent demand for the Company's products over time. The businesses acquired from Taminco are expected to provide additional opportunities for growth in agriculture, personal care, coatings, and oil and gas markets. 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 key end markets.

In 2014, the Company reported sales revenue of $9.5 billion, operating earnings of $1.2 billion, and earnings from continuing operations of $749 million. Earnings per diluted share from continuing operations were $4.95. Asset impairments and restructuring charges and acquisition-related costs included in operating earnings were $77 million

and $70 million, respectively. Additionally, operating earnings included a mark-to-market ("MTM") pension and other postretirement benefits plans actuarial net loss of $304 million.

Business Strategy

Eastman's objective is to be an outperforming specialty chemical company with consistent earnings growth and strong cash flow. 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 deliver consistent financial results by leveraging the Company's world class technology platforms, improving product mix through innovation, sustaining and expanding advantaged market positions and leveraging advantaged cost positions. Consistently increasing earnings are expected to result from both organic (internal) growth initiatives and inorganic (external growth through joint ventures and acquisitions) initiatives.

In 2014, the Company progressed on both organic and inorganic growth initiatives, including:

- completing the acquisition of Taminco, which is expected to:
  - strengthen Eastman's presence in attractive niche markets benefiting from megatrends;
  - leverage a world-class technology platform underpinned by a business model similar to Eastman's;
  - provide synergy opportunities; and
  - accelerate revenue and earnings growth prospects;
- completing the integration of Solutia;
- in the AFP segment:
  - proceeding with a 40,000 metric ton expansion of the Crystex® insoluble sulfur rubber additives manufacturing facility in Kuantan, Malaysia, expected to be operational in the first half of 2017, and retrofitting an existing manufacturing facility in Germany expected to be operational in the second half of 2015. These actions are expected to capitalize on recent enhancements of technology for the manufacture of Crystex® insoluble sulfur by improving the Company's cost position and enhancing product characteristics; and
  - adding Taminco's former specialty amines and crop protection businesses;
- in the A&P segment, completing a capacity expansion of Eastman 168™ non-phthalate plasticizers at the manufacturing facility in Texas City, Texas in second quarter 2014;
- in the AM segment:
  - completing an expansion of Eastman Tritan™ copolyester capacity and beginning an additional 60,000 metric ton expansion of Eastman Tritan™ copolyester capacity at the Kingsport, Tennessee manufacturing facility in fourth quarter 2014 which is expected to be operational in early 2017 to meet expected demand for Eastman Tritan™ copolyester; and
  - completing the acquisition of Commonwealth to strengthen the window film product portfolio, add industry leading protective film technology, and increase scale cost efficiencies;
- in the SFI segment:
  - completing the acquisition of the aviation turbine oil business to broaden Eastman product offerings to better supply the global aviation industry;
  - continuing a Therminol® heat transfer fluid capacity expansion in Newport, Wales, which is expected to be operational in the second half of 2015 to support expected long-term demand growth in the industrial chemicals and processing market; and
  - adding Taminco's former functional amines business; and
- completing the acquisition of Knowlton Technologies, a leader in wet-laid nonwovens, to accelerate the innovation cycle for the Eastman™ microfibers technology platform.

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. Examples of Eastman’s leading position in providing sustainable solutions are Eastman Tritan™ copolyester, Saflex® acoustic and acoustic heads up display (“HUD”), Eastman Omnia™ high performance solvent, and Eastman 168™ non-phthalate plasticizers.

Management is actively pursuing additional opportunities to leverage world class technology platforms for continued near- and long-term growth both sustaining our leadership in existing markets and expanding into new markets. Examples of these technologies include cellulose esters for tires and packaging and Eastman™ Microfibers technology.

Financial Strategy

In addition to managing its businesses and growth initiatives, the Company remains committed to maintaining a strong financial position with appropriate financial flexibility and liquidity. Eastman management believes maintaining a

financial profile that supports an investment grade credit rating is important to its long term strategic and financial flexibility. The Company employs a disciplined and balanced approach to capital allocation and deployment of cash. As described above, 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 combination of strong cash flow generation and liquidity and a solid balance sheet will continue to provide flexibility to pursue growth.

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 20, "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. The recently acquired specialty amines and crop protection products are primarily for personal care and agriculture markets. In 2014, the AFP segment had sales revenue of $1.8 billion, 19 percent of Eastman's total sales. Key technology platforms in this segment are propylene derivatives, alkylamine derivatives, insoluble sulfur, cellulose esters, polyester polymers, and hydrocarbon resins.

AFP sales growth is typically similar to general economic growth due to the wide variety of end uses such as tires, coatings, consumables, and feed additives. The segment is focused on high-value additives that provide critical functionality but which comprise a small percentage of total customer product cost. 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.

•Principal Products

Product	Description	Principal Competitors	Key Raw Materials	End-Use Applications
Coatings Industry and Other Formulated Products				
Solvents • Texanol™ • ketones • esters • glycol ethers	specialty coalescents, specialty solvents, and commodity solvents	BASF SE The Dow Chemical Company	propane propylene ethane	Coatings Industry Building and construction (architectural coatings) Transportation (OEM) and refinish coatings Durable goods (industrial coatings applications) Other Formulated Products

• alcohol solvents				Distribution solvents (olefin derived solvents sold through distribution) Consumables (graphic arts, cleaners, packaging) Industrial chemicals (process solvents and intermediates)
Polymers • cellulosics • polyesters • polyolefins	paint additives and specialty polymers	Alternative technologies	wood pulp propylene propane	Coatings Industry Transportation (OEM and refinish coatings) Durable goods (wood and industrial coatings applications) Other Formulated Products Consumables (graphic arts and inks) Health and wellness (pharmaceutical and personal care)

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 (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	nitrobenzene aniline methyl isobutyl ketone	Transportation (tire manufacturing) Other rubber products (such as hoses, belts, seals, and footwear)
Piccotac® Kristalex®	hydrocarbon resins	Cray Valley Hydrocarbon Specialty Chemicals Exxon Mobil Corporation Kolon Industries Incorporated	alpha methylstyrene piperylene styrene	Transportation (tire manufacturing)
Specialty Amines				
Specialty intermediates	amine-derivative-based building blocks	BASF	ethylene oxide ammonia alcohols	Personal care Water treatment
Performance products	branded amine based products for niche applications	BASF The Dow Chemical Company Huntsman Corporation	ethyl oxide butylamines	Coatings Animal nutrition Oil and gas Metal working fluids
Formic acid solutions	formic-acid based solutions	BASF Perstorp Luxi Chemical Group Feicheng Acid Chemicals	sulfuric acid formic acid	Animal nutrition De-icing
Crop Protection				
Alkylamine derivatives	metam based soil fumigants	The Dow Chemical Company Argo-Kanesho Co Ltd	alkylamines CS2 caustic soda	Agriculture Crop protection

thiram and ziram based	Bayer
fungicides	BASF
plant growth regulator	

	Percentage of Total Segment Sales			
Product Lines	2014	2013	2012 Pro Forma Combined [1]	2012
Coatings Industry and Other Formulated Products	66%	66%	66%	80%
Tires Industry	31%	34%	34%	20%
Specialty Amines and Crop Protection	3%	-	-	-

(1) "2012 Pro Forma Combined" gives effect to the acquisition of Solutia as if it had been completed at January 1, 2012.

•Strategy

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 additives technology allows tire manufacturers to enhance fuel efficiency performance without compromising other critical properties like handling and wet traction. In order to address identified market needs, the Company is also developing new technologies such as polyesters for coatings, sustainable solvents, and hydrocarbon resins for tires.

In addition, the acquired Taminco specialty amines and crop protection businesses are expected to enhance Eastman's presence and provide additional opportunities for AFP growth in attractive niche markets including personal care, coatings, oil and gas, and feed and animal nutrition markets.

The Company is proceeding with a 40,000 metric ton expansion of the Crystex® insoluble sulfur rubber additives manufacturing facility in Kuantan, Malaysia, expected to be operational in the first half of 2017, and retrofitting an existing manufacturing facility in Germany expected to be operational in the second half of 2015. These actions are expected to capitalize on recent enhancements of technology for the manufacture of Crystex® insoluble sulfur by improving the Company's cost position and enhancing product characteristics.

The Company's global manufacturing presence is a key element of the AFP segment's growth strategy. For example, the segment expects to capitalize on industrial growth in China and other parts of Asia from its planned manufacturing capacity expansion in Malaysia and cellulose ester products sourced from our low cost acetyl manufacturing stream in North America.

ADHESIVES & PLASTICIZERS SEGMENT

•Overview

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 2014, the A&P segment had sales revenue of $1.4 billion, 15 percent of Eastman's total sales. Key technology platforms in this segment are the integrated olefins and polyesters platforms as well as the hydrocarbon resins platform.

In the A&P segment, Eastman manufactures adhesives resins and plasticizers which are used in the manufacture of products sold into 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. In addition, the segment is expected to benefit from recovery in the North American building and construction industry and the shift of vinyl flooring production to the United States from Asia Pacific. 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. Industry supply of some adhesives

resins products is affected by changes in the availability of key raw materials. 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. 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.	piperylene C9 resin oil gum rosin	Consumables (resins used in hygiene and packaging adhesives) Building and 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 and construction (non-phthalate plasticizers used in interior surfaces) Consumables (food packaging, packaging adhesives, and glove applications) Health and wellness (medical devices)

	Percentage of Total Segment Sales		
Product Lines	2014	2013	2012
Adhesives Resins	53%	52%	55%
Plasticizers	47%	48%	45%

- Strategy

A key element of the A&P segment's strategy for growth is to leverage Eastman's leading positions and market insights in high-growth hygiene, consumables, durables, and non-phthalate plasticizer applications. 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 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. 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. The segment's regional focus is mainly to leverage its leading cost position in North America and Europe for plasticizers and to serve global markets for adhesives.

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. Innovation efforts are focused on improving process efficiency and feedstock flexibility enabling low cost capacity additions, developing products addressing increasing customer quality needs for adhesives, and further enabling customer switching to non-phthalate plasticizers.

In 2014 the Company completed an expansion of its Eastman 168™ non-phthalate plasticizers manufacturing capacity at its Texas City, Texas site.

In addition, the Company and Sinopec Yangzi Petrochemical Company Limited continue to evaluate the timing of a joint project to build a 50,000 metric ton hydrogenated hydrocarbons resin plant in Nanjing, China which will support expected demand growth for its products in hygiene and packaging applications in that region.

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 2014, the AM segment had sales revenue of $2.4 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 providing a balance of performance attributes, practical processing, and Bisphenol A (“BPA”) free and sustainability solutions with Tritan™ copolyester 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 differentiated technology and application development capabilities. Management believes the AM segment's competitive advantages also include long-term customer relationships, vertical integration and scale in manufacturing, and leading market positions.

•Principal Products

Product	Description	Principal Competitors	Key Raw Materials	End-Use Applications
Specialty Plastics				
Eastar™ copolyesters Eastman Tritan™ copolyester Eastman Visualize™ Material Eastman Embrace™ copolyester Eastman Spectar™ copolyester Eastman Aspira™ family of resins Flexvue®	specialty copolyesters and cellulose esters	Bayer AG Styron LLC Evonik Industries AG Saudi Basic Industries Corporation Mitsubishi Chemical Corporation S.K. Chemical Industries Sichuan Push Acetati Company Limited Daicel Chemical Industries Ltd	paraxylene ethylene glycol cellulose	Consumables (Specialty copolyesters used in consumer packaging, personal care and cosmetics packaging, in-store fixtures and displays) Durable goods (consumer housewares and appliances) Health and wellness (medical) Electronics (displays)
Interlayers				
Saflex® Saflex® Q Series	polyvinyl butyral ("PVB") sheet specialty PVB intermediates	Sekisui Chemical Co., Ltd. Kuraray Co., Ltd	polyvinyl alcohol vinyl acetate monomer butyraldehyde 2-ethyl hexanol ethanol	Transportation (automotive safety glass, automotive acoustic glass, and HUD) Building and construction (PVB for architectural interlayers)
Performance Films				
LLumar® SunTek® V-KOOL® Gila®	window film and protective film products for aftermarket applied films	3M Company Saint-Gobain S.A. Garware Chemicals Limited	polyethylene terephthalate film	Transportation (automotive after-market window film) Building and construction (residential and commercial window films)

	Percentage of Total Segment Sales			
Product Lines	2014	2013	2012 Pro Forma Combined [1]	2012
Specialty Plastics	54%	53%	52%	69%
Interlayers	34%	34%	34%	23%

Performance Films	12%	13%	14%	8%

(1) "2012 Pro Forma Combined" gives effect to the acquisition of Solutia as if it had been completed at January 1, 2012.

•Strategy

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. The segment is working to expand its portfolio of higher margin products in attractive end markets. Through Eastman's advantaged asset position and expertise in applications development, management believes that the AM segment is well positioned for future growth. An example is Eastman Tritan™ copolyester used in small appliance applications where the combination of toughness, durability and design flexibility provides clear advantages over glass or lower performance polymer materials. The interlayers product lines, including HUD and acoustic PVB sheet, leverage Eastman's 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 further growth, particularly in leading automotive markets such as North America and Asia. The segment’s product portfolio is aligned with underlying trends toward energy efficiency in both automotive and architectural markets. Additionally, increased demand for BPA-free products has created new opportunities for various applications of copolyesters.

The AM segment expects to continue to improve product mix from increased sales of premium products, including Eastman Tritan™ copolyester, Eastman Visualize™ Material, interlayers with acoustic properties, and LLumar®, V-KOOL®, and SunTek® window films and protective films.

The acquisition of Commonwealth further expands the AM segment's product portfolio and channel network in the diverse window film markets. In addition, the acquisition is expected to enable further manufacturing and distribution efficiencies and adds industry leading paint protection film technology to expand AM segment offerings in after-market automotive and protective film markets.

The Company completed an expansion of Eastman Tritan™ copolyester capacity at the Kingsport, Tennessee manufacturing facility in fourth quarter 2014, and began an additional 60,000 metric ton expansion of Eastman Tritan™ copolyester capacity at the Kingsport, Tennessee manufacturing facility which is expected to be operational in early 2017 to meet expected demand for Eastman Tritan™ copolyester.

During 2014, the Company also progressed on enhancements and innovations to improve its cost position in its PVB resin technology, supporting growth in the AM segment's transportation and building and construction markets in the Asia Pacific region. The construction of a manufacturing facility at the Kuantan, Malaysia site incorporating these improvements is expected to be operational in mid-2017.

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. 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 2014, the Fibers segment had sales revenue of $1.5 billion, 15 percent of Eastman's total sales. The Fibers segment has been and is expected to

continue to be a stable source of cash flow and earnings.

Eastman's Fibers segment customers are located in all regions of the world, with Asia Pacific approximately 55 percent of 2014 revenues. The largest 13 Fibers segment customers include multinational as well as regional cigarette producers, fabric manufacturers, and other acetate fiber producers which account for approximately 80 percent of the segment's total sales revenue in 2014. Sales prices for a significant portion of the Fibers segment's products are typically negotiated on an annual basis.

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 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 strategic 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	UAB Dirbtinis Pluostas Industrias del Acetato de Celulosa S.A. Mitsubishi Rayon Co. Ltd.	wood pulp methanol high sulfur coal	Consumables (apparel, home furnishings, and industrial fabrics) Health and wellness (medical tape)
Acetyl Chemical Products				
Estrobond™	triacetin cellulose diacetate flake acetic acid acetic anhydride	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)

	Percentage of Total Segment Sales		
Product Lines	2014	2013	2012
Acetate Tow	79%	83%	86%
Acetate Yarn and Acetyl Chemical Products	21%	17%	14%

- Strategy

In the Fibers segment, Eastman continues to leverage its strong customer relationships and industry knowledge to maintain a leading industry position in the global market. Eastman’s Fibers segment benefits from a state-of-the-art, world class, acetate flake production facility at the Kingsport, Tennessee site. In 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. Eastman's total global acetate tow capacity is approximately 210,000 metric tons, not including the Company’s participation in the Eastman China tow joint venture. The Company supplies 100 percent of the acetate flake raw material to the joint venture from the Company’s manufacturing facility in Kingsport, which the Company recognizes in sales revenue. The Company recognizes earnings in the joint venture through its equity investment, reported in "Other (income) charges, net" in the Consolidated Statement of Earnings.

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.

As a result of recent acetate tow market conditions, including additional industry capacity, the Company is evaluating actions to reduce Fibers segment costs. On February 3, 2015, Eastman announced it will begin a consultation period regarding a proposal to close its Workington, U.K., acetate tow 24,000 metric ton capacity manufacturing facility. The proposed consultation process is, and the closure would be, subject to local legal and regulatory requirements.

SPECIALTY FLUIDS & INTERMEDIATES SEGMENT

•Overview

The SFI segment leverages large scale and vertical integration from the acetyl and olefins streams and the recently acquired alkylamine stream 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 agrochemicals. Certain SFI products are also 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 acetyl chemical intermediates, olefin derivatives, specialty fluids, and alkylamines due to its competitive cost position, scale, technology, and reliability of supply. In 2014, the SFI segment had sales revenue of $2.5 billion, 26 percent of the Company's total sales. Technology platforms for this segment include acetyls, oxo, benzene and derivatives, polyester and alkylamines.

Historically, the intermediates product line's competitive cost position has been primarily due to use of and access to lower cost raw materials, including natural gas, which are 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 cyclicality is caused by periods of supply and demand imbalance, either when incremental capacity additions are not offset by corresponding increases in demand or when demand exceeds existing supply. While 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 time to time due both to general economic conditions and olefins supply and demand.

The specialty fluids product line includes heat transfer and aviation fluids products. The heat transfer fluids product line offers a portfolio of high temperature synthetic aromatic fluids used primarily for indirect heat transfer in many chemical and manufacturing processes. Due to timing of customer project completions, heat transfer fluids product line revenues and earnings fluctuate from time to time. The aviation fluids product line includes brands that sell into critical applications in the airline industry. Aviation fluids product revenues have historically been stable and influenced by general consumer demand and product performance in global fleet engines.

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•Principal Products

Product	Description	Principal Competitors	Key Raw Materials	End-Use Applications
Chemical Intermediates				
oxo alcohols and 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 and processing Building and construction (paint/coating applications, construction chemicals, building materials) Pharmaceuticals and agriculture Health and wellness
Other Intermediates				
ethylene oxo alcohols polymer intermediates acetic acid	olefin, chemical intermediates, and polymer intermediates	LyondellBasell Industries Celanese Corporation BP plc BASF SE Flint Hill Resources	propane ethane propylene coal natural gas paraxylene metaxylene	Building and construction (paint/coating applications, construction chemicals, building materials) Industrial chemicals and processing Packaging
Specialty Fluids				
Therminol® Skydrol® Eastman Turbo Oils	heat transfer and aviation fluids	The Dow Chemical Company Exxon Mobil Corporation	benzene phosphorous neo-polyol esters	Industrial chemicals and processing (heat transfer fluids for chemical processes) Renewable energy Commercial aviation
Functional Amines				
alkylamines	methylamines and salts higher amines and solvents	DuPont U.S. Amines Oxea	methanol ammonia acetone ethanol butanol	Agrochemicals and various industrial intermediates Energy Personal care Water treatment Animal nutrition

	Percentage of Total Segment Sales			
Product Lines	2014	2013	2012 Pro Forma Combined [1]	2012
Chemical Intermediates	50%	48%	48%	51%
Other Intermediates	35%	39%	39%	42%
Specialty Fluids	14%	13%	13%	7%

Functional Amines	1%	—%	—%	—%

(1) "2012 Pro Forma Combined" gives effect to the acquisition of Solutia as if it had been completed at January 1, 2012.

- Strategy

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 long-term goal is to expand volumes in growth markets for Therminol® heat transfer fluids through market development efforts. In second quarter 2014, the Company acquired the aviation turbine oil business. Added to Eastman’s Skydrol® aviation hydraulic fluids products, the acquired aviation turbine oil product line enables Eastman to better supply the global aviation industry.

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 leverages 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. At the Pace, Florida manufacturing facility acquired from Taminco, a recent expansion solidifies the Company’s position as the largest methylamine producer in North America. 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 newly-acquired functional amines product line is expected to provide additional opportunities for SFI segment growth in attractive niche markets such as agriculture and personal care.

The Therminol® heat transfer fluid capacity expansion in Newport, Wales, is expected to be operational in the second half of 2015 to support expected long-term demand in the industrial chemicals and processing market for SFI products.

In 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 2016, which is 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 continues to benefit from a propylene market contract with an advantaged cost position for purchased propylene. The Company continues to optimize the ethane content in its olefin cracking units feedstock mix based on relative market prices of olefins and olefins feedstocks.

The Company continues to evaluate long-term options for monetizing the Company's excess ethylene capacity while retaining 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.

CORPORATE INITIATIVES

In addition to its business segments, the Company manages certain growth initiatives and costs at the corporate level, including certain research and development 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 research and development initiatives that are aligned with macro trends in sustainability, consumerism, and energy efficiency such as high performance materials, advanced cellulosics, and reduced environmental impact. An example of such an initiative is the Eastman™ microfiber technology platform 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, with opportunities for future growth in nonwoven and textile applications. The acquisition of Knowlton Technologies is expected to accelerate the Eastman™ microfiber technology platform innovation.

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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 2014. As the Company continues to focus on growth in emerging markets, the percentage of sales from outside the United States and Canada is expected to increase. 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. See "Management's Discussion and Analysis of Financial Condition and Results of Operations - Risk Factors" in Part II, Item 7 of this Annual Report.

In 2014, the regional revenue by segment was as follows:

	United States and Canada	Asia Pacific	Europe, Middle East, and Africa	Latin America
Additives & Functional Products	18%	20%	19%	29%
Adhesives & Plasticizers	17%	5%	19%	16%
Advanced Materials	20%	28%	32%	26%
Fibers	6%	30%	17%	10%
Specialty Fluids & Intermediates	39%	17%	13%	19%
TOTAL	100%	100%	100%	100%

In 2014, the segment revenue by region was as follows:

	Additives & Functional Products	Adhesives & Plasticizers	Advanced Materials	Fibers	Specialty Fluids & Intermediates	Combined
United States and Canada	42%	56%	36%	19%	68%	46%
Asia Pacific	28%	9%	30%	53%	17%	27%
Europe, Middle East, and Africa	22%	29%	28%	24%	11%	22%
Latin America	8%	6%	6%	4%	4%	5%
TOTAL	100%	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 39 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. Recently a larger portion of worldwide building and construction end market products like those of the A&P segment are manufactured in North America rather than Asia Pacific.

Eastman's focus for the Asia Pacific region is on specialty products that benefit from both the emerging middle class in the region and a 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 an equity joint venture with China National Tobacco Corporation for a 30,000 metric ton acetate tow manufacturing facility in Hefei, China completed in 2013. In the AFP segment, the Company is proceeding with a Crystex® capacity expansion at the Kuantan, Malaysia manufacturing facility to capitalize on expected high industrial growth rates in the Asia Pacific region. This expansion is expected to be operational in the first half of 2017. In the

AM segment, the Company is proceeding with the construction of a PVB resin manufacturing facility at the Kuantan, Malaysia site which is expected to be operational mid-2017. The Fibers segment is 30 percent of revenue in the region, primarily from acetate tow products.

Company revenues in the Europe, Middle East, and Africa region continue to be negatively affected by ongoing economic weakness in Europe, although sales of certain of the Company's products in the region have increased more than general economic growth in recent periods due to regulatory requirements and consumer preferences in Europe. Additionally, growth in the emerging economies of Eastern Europe for certain products has been higher than global economic growth in recent periods because of higher growth in gross domestic product and per capita income. The AM segment accounted for 32 percent of the region's revenue, with a high concentration of interlayers product 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 has been volatile due to product availability and the dependence of selling prices on key raw material and energy costs for the chemical intermediates products in the SFI segment. The AFP segment accounted for 29 percent of the region's revenue due to strong sales revenue in both coatings and tires markets.

Financial Information About Geographic Areas

For sales revenue and long-lived assets by geographic areas, see Note 20, "Segment Information", to the Company's consolidated financial statements in Part II, Item 8 of this Annual Report.

EASTMAN CHEMICAL COMPANY GENERAL INFORMATION

Competitive Positions

Eastman has a strong portfolio of businesses that hold leading positions and manufacture products that enhance performance in a variety of end markets, sometimes classified as "specialty", "special position", or "commodity" products depending on product feature, product market, and competitive characteristics. Management considers “specialty” products those with leading competitive positions that enhance the performance of the end-use products through unique or differentiated product features. Examples of “specialty” products are Eastman Tritan™ copolyester, Texanol™, and Crystex®. “Special position” products are products that are also offered by competitors, but for which Eastman’s market position, regional cost advantage, and customer service provides a competitive advantage that enables consistent profit margins. Examples of “special position” products are Eastman 168™ plasticizer and acetic anhydride. The acquisition of the Taminco businesses adds additional "specialty" and "special position" products to the Company's portfolio. A relatively small portion (less than 15 percent of 2014 operating earnings) of Eastman’s products are considered “commodity” products, primarily excess chemical intermediates produced by Eastman’s large scale vertically integrated manufacturing assets that are sold externally to maintain high manufacturing capacity utilization. Examples of “commodity” products are bulk ethylene and polymer intermediates.

Seasonality and Cyclicality

The Company's earnings are typically greater in second and third quarters, and cash flows from operations are typically highest in the second half of the year due to seasonal demand based on general economic activity in the Company's key markets 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 coatings product lines of the AFP segment are impacted by the cyclicality of key end products and markets, while other segments are more sensitive to global economic conditions. Supply and demand dynamics determine profitability at different stages of business cycles and global economic conditions affect the length of each cycle.

Despite sensitivity to global economic conditions, many of the products of each segment are expected to continue to provide 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 39 other countries selling into approximately 135 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 market price fluctuations. Key raw materials include propane, paraxylene, cellulose, propylene, methanol, natural gas, coal, ethane, and a wide variety of precursors for specialty organic chemicals. Key purchased energy sources include natural gas, steam, coal, and electricity. The Company has multiple suppliers for most key raw materials and energy and uses quality management principles, such as the establishment of long-term relationships with suppliers and on-going performance assessment and benchmarking, as part of its supplier selection process. When appropriate, the Company purchases raw materials from a single source supplier to maximize quality and cost improvements, and has developed contingency plans designed to minimize the potential impact of any supply disruptions from single source suppliers.

While temporary shortages of raw materials and energy may occasionally occur, these items are generally sufficiently available to cover current and projected requirements. However, their continuous availability and cost are subject to unscheduled plant interruptions occurring during periods of high demand, domestic and world market conditions, changes in government regulation, natural disasters, war or other outbreak of hostilities or terrorism or other political factors, or breakdown or degradation of transportation infrastructure. Eastman's operations or products have in the past, and may in the future, be adversely affected by these factors. The Company's raw material and energy costs as a percent of total cost of operations were approximately 55 percent, 60 percent, and 55 percent in 2014, 2013, and 2012, respectively.

For additional information about raw materials, see exhibit 99.01 "Product and Raw Material Information" of this Annual Report on Form 10-K.

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. The Taminco acquisition adds a leading position in alkylamine chemistry. For each of these chemistries, Eastman has developed and acquired a combination of assets and technologies that are operated within four 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. The company continues to optimize the ethane content in its olefins cracking units feedstock mix based on relative market prices of olefins and olefins feedstocks. The Company also purchases additional propylene for use at its Longview facility and its facilities outside the United States and has an agreement with Enterprise Products Partners L.P. to purchase propylene from a planned propane dehydrogenation plant expected to be operational in 2016, 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 benefits 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 the alkylamine stream, the Company begins with ammonia and alcohols (C1 - C6) to produce methyl amines and higher alkylamines, which can then be further reacted with other chemicals to produce alkylamine derivatives. The Company’s alkylamine products are primarily used in agriculture, water treatment, personal care, animal nutrition and oil and gas end markets. The Company is recognized as a leader in alkylamine technology. Methylamines are manufactured by reacting methanol with ammonia in a catalytic reactor. Three different methylamines are produced: mono methylamine (“MMA”), di methylamine (“DMA”) and tri methylamine (“TMA”). The reaction circumstances (pressure, temperature, catalysts, etc.) and reactant ratios determine the ratio of the three products which are purified by distillation and used as building blocks to produce downstream derivatives or sold externally to merchant customers. The term 'higher alkylamines' refers to amines produced with C2-C6 alcohols (ethyl, n butyl, n propyl, isopropyl and cyclohexyl amines). The manufacturing process for higher alkylamines is similar to that for methylamines, as ammonia is combined with various alcohols in catalytic reactors and subsequently distilled. The use of different alcohols results in the creation of different higher alkylamines which are used both internally to produce derivatives or sold externally to the merchant market.

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

The Company leverages its expertise and innovation in acetyl, olefins, polyester and alkylamine chemistries, and technologies, as well as its use of cellulosics, to meet demand and create new uses and opportunities for the Company's products in key markets. Through integration and optimization across these streams, the Company is able to create unique and differentiated products that have a performance advantage over competitive materials.

Capital Expenditures

Capital expenditures were $593 million, $483 million, and $465 million in 2014, 2013, and 2012, respectively. Capital expenditures in 2014 were primarily for organic growth initiatives particularly in the SFI and AM segments, including improvements to plants, purchases of equipment, and manufacturing and administrative facility additions and enhancements. The Company expects that 2015 capital spending will be between $700 million and $725 million including the costs of modernization and expansion of the Kingsport, Tennessee site, the expansion and construction at the Kuantan, Malaysia manufacturing site in the AFP and AM segments, additional expansion of Eastman Tritan™ copolyester capacity in Kingsport, and a Therminol® heat transfer fluid capacity expansion in Newport, Wales. Capital spending in 2015 is expected to include approximately $80 million for the recently acquired Taminco businesses.

Employees

Eastman employs approximately 15,000 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 2014 sales revenue. No single customer accounted for 10 percent or more of the Company's consolidated sales revenue during 2014.

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. As a producer of a broad range of advanced materials, chemicals, and fibers, Eastman owns over 700 active United States patents and more than 1,900 active foreign patents, expiring at various times over several years, and also owns over 5,500 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.

Research and Development

For 2014, 2013, and 2012, Eastman's R&D expenses totaled $227 million, $193 million, and $198 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, any new legislation or regulations related to greenhouse gas emissions and energy 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 $319 million, $285 million, and $262 million, in 2014, 2013, and 2012, respectively. These amounts were primarily for operating costs associated with environmental protection equipment and facilities, but also included $79 million and $53 million in expenditures for engineering and construction in 2014 and 2013, respectively.

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 near term 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"; 14, "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, 2015 and 2014, 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 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 – Risk Factors" of this Annual Report.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

EXECUTIVE OFFICERS OF THE COMPANY

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

Mark J. Costa, age 48, is Chief Executive Officer and Chairman of the Eastman Chemical Company Board of Directors. 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 Chief Executive Officer in January 2014 and was named Chairman effective July 2014.

Curtis E. Espeland, age 50, 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 56, 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, Adhesives &Plasticizers, Fibers, Specialty Fluids & Intermediates, Engineering and Construction, and Manufacturing Support. He was appointed to his current position effective January 2014.

Brad A. Lich, age 47, is Executive Vice President, with responsibility for the Additives and Functional Products and Advanced Materials segments and the marketing, sales, and pricing organizations. Mr. Lich joined Eastman in 2001 as Director of Global Product Management and Marketing for Coatings. Other positions of increasing responsibility followed, including General Manager of Emerging Markets for the former Coatings, Adhesives, Specialty Polymers, and Inks ("CASPI"). In 2006, Mr. Lich became Vice President of Global Marketing with direct responsibility for company-wide global marketing functions. In 2008, Mr. Lich was appointed Vice President and General Manager of the CASPI 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 61, 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.

Mark K. Cox, age 49, 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.

Stephen G. Crawford, age 50, 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 wa