EASTMAN CHEMICAL CO
Form 10-K
February 24, 2010

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, 2009
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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EXHIBIT INDEX ON PAGE 128

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K 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 $37.90 closing price on the New York Stock Exchange on June 30, 2009) of the 71,980,441 shares of common equity held by non-affiliates as of December 31, 2009 was approximately $2,728,058,714, using beneficial ownership rules adopted pursuant to Section 13 of the Securities Exchange Act of 1934, as amended, to exclude common stock that may be deemed beneficially owned as of December 31, 2009 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 72,468,042 shares of common stock of the registrant were outstanding at December 31, 2009.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive Proxy Statement relating to the 2010 Annual Meeting of Stockholders (the "2010 Proxy Statement"), to be filed with the Securities and Exchange Commission, are incorporated by reference in Part III, Items 10 to 14 of this Annual Report on Form 10-K (the "Annual Report") as indicated herein.

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FORWARD-LOOKING STATEMENTS

Certain statements in this Annual Report which are not statements of historical fact may be "forward-looking statements" as defined in the Private Securities Litigation Reform Act of 1995 and other federal securities laws. These statements, and other written and oral forward-looking statements made by the Company from time to time 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; 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 restructuring, divestiture, and consolidation activities; cost reduction and control efforts and targets; integration of any 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.

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

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PART I

ITEM 1. BUSINESS

CORPORATE OVERVIEW

Eastman Chemical Company ("Eastman" or the "Company") is a global chemical company which manufactures and sells a broad portfolio of chemicals, plastics, and fibers. 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, as of December 31, 1993. Eastman has eleven manufacturing sites in seven countries that supply chemicals, plastics, and fibers products to customers throughout the world. The Company's headquarters and largest manufacturing site are located in Kingsport, Tennessee.

In 2009, the Company had sales revenue of $5.0 billion and operating earnings of $317 million. Earnings per diluted share were $1.85 in 2009. Included in 2009 operating earnings were asset impairments and restructuring charges of $200 million.

The Company's products and operations are managed and reported in five operating segments: the Coatings, Adhesives, Specialty Polymers, and Inks ("CASPI") segment, the Fibers segment, the Performance Chemicals and Intermediates ("PCI") segment, the Performance Polymers segment and the Specialty Plastics segment. The Company manages certain costs and initiatives at the corporate level, including certain research and development costs not allocated to the operating segments. For additional information concerning the Company's operating segments, see Note 22 "Segment Information" to the Company's consolidated financial statements in Part II, Item 8 of this 2009 Annual Report on Form 10-K (this "Annual Report").

Corporate Strategy

Eastman's objective is to be an outperforming chemical company by delivering solid financial results from its core businesses and its plans for profitable growth. The Company's core businesses currently sell differentiated products into diverse markets and geographic regions. Management believes that the Company can increase the revenues from its core businesses with increasing profitability through a balance of new applications for existing products, development of new products, and sales growth in adjacent markets and emerging geographic regions. These revenue and earnings increases are expected to result from organic initiatives and through acquisitions and joint ventures. Current Company growth initiatives include:

- In the Fibers segment, construction of the Korean cellulose acetate tow manufacturing facility began in first quarter 2009 and the facility is expected to be operational in first quarter 2010. The facility and related business will be owned by a company formed through an alliance with SK Chemicals Company Ltd. ("SK").
- In the Specialty Plastics segment, continued introduction of new high-temperature copolyester products based on Eastman TritanTM copolyester and production in early 2010 from the monomer manufacturing facility and its first TritanTM copolyester polymer manufacturing facility in Kingsport, Tennessee which were both completed in 2009.
- In the CASPI segment, increased production in 2010 as a result of the 30 percent expansion of the Company's hydrogenated hydrocarbon resins manufacturing capacity in Middelburg, the Netherlands which was completed in 2009 to meet growing demand for specialty hydrocarbon resins.
- In the PCI segment, increased revenue from acetyl licenses and growth in plasticizers, including Eastman 168TM plasticizer, in 2010.

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

development and sales of sustainable products, and has reduced its greenhouse gas emissions and energy consumption.

The combination of sustainable profits from the solid core businesses and profitable revenue growth is expected to result in continued solid financial results.

Manufacturing Streams

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

- In the acetyl stream, the Company begins with high sulfur coal which is 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 products throughout the Company including acetate tow, acetate yarn, and cellulose esters. The Company's ability to use coal is a competitive advantage in both raw materials and energy. The Company continues to evaluate opportunities to further leverage its gasification expertise to produce additional cost advantaged chemicals from petroleum coke or coal instead of natural gas or petroleum.
- In the polyester stream, the Company begins with purchased paraxylene and produces purified terephthalic acid ("PTA") for polyethylene terephthalate ("PET") and copolyesters and dimethyl terephthalate ("DMT") for copolyesters. PTA or DMT is then reacted with ethylene glycol, which the Company both makes and purchases, along with other raw materials (some of which the Company makes and are proprietary) to produce PET and copolyesters. The Company believes that this backward integration of polyester manufacturing is a competitive advantage, giving Eastman a low cost position, as well as surety of intermediate supply. In addition, Eastman can add specialty monomers to copolyesters to provide clear, tough, chemically resistant product characteristics. As a result, the Company's copolyesters can effectively compete with materials such as polycarbonate and acrylic.
- In the olefins stream, the Company begins primarily with propane and ethane, which are then cracked at its facility in Longview, Texas into propylene, as well as ethylene. "Cracking" is a chemical process in which gases are broken down into smaller, lighter molecules for use in the manufacturing process. The Company also purchases propylene for use at its Longview facility and its facilities outside the U.S. The propylene is used in oxo derivative products. The ethylene is used in oxo derivative products, acetaldehyde and ethylene glycol production and is also sold commercially. Petrochemical business cycles are influenced by periods of over- and under-capacity. Capacity additions to steam cracker units around the world, combined with demand for light olefins, determine the operating rate and thus profitability of producing olefins. Historically, periodic additions of large blocks of capacity have caused profit margins of light olefins to be very volatile, resulting in "ethylene" or "olefins" cycles.

The following chart shows the Company's sites at which its manufacturing streams are primarily employed.

SITE	ACETYL STREAM	POLYESTER STREAM	OLEFINS STREAM
Kingsport, Tennessee	X	X	X
Longview, Texas	X		X
Columbia, South Carolina		X	
Kuantan, Malaysia		X	
Singapore			X
Workington, United Kingdom	X		

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The following chart shows significant Eastman products, markets, and end uses by segment and manufacturing stream.

SEGMENT	ACETYL STREAM	POLYESTER STREAM	OLEFINS STREAM	KEY PRODUCTS, MARKETS, AND END USES
CASPI	X		X	Adhesives ingredients (tape, labels, and nonwovens) and paints and coatings (architectural, transportation, industrial, and original equipment manufacturing ("OEM"))
Fibers	X			Acetate fibers for filter products and textiles
PCI	X	X	X	Intermediate chemicals for agrochemicals, transportation, beverages, nutrition, pharmaceuticals, coatings, medical devices, toys, photographic and imaging, household products, polymers, textiles, and consumer and industrial products and uses
Performance Polymers	X	X		PET for beverage and food packaging, custom-care and cosmetic packaging, health care and pharmaceutical uses, household products, and industrial packaging applications
Specialty Plastics	X	X	X	Copolyesters and cellulosics for appliances, store fixtures and displays, building and construction, electronic packaging, medical devices and packaging, graphic arts, general purpose packaging, personal care and cosmetics, food and beverage packaging, performance films, tape and labels, fibers/nonwovens, photographic and optical films,

and liquid crystal displays

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

The Company continues to leverage its heritage of expertise and innovation in acetyl, polyester, and olefins 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. By choosing to combine certain streams, the Company is able to create unique and differentiated products that have a performance advantage over competitive materials.

Cyclicality and Seasonality

The PCI and Performance Polymers segments are impacted by the cyclicality of key products and markets, while the other segments are more sensitive to global economic conditions. Supply and demand dynamics determine profitability at different stages of cycles and global economic conditions affect the length of each cycle. Despite sensitivity to global economic conditions, many of the products in the Fibers and CASPI segments provide a stable foundation of earnings.

The Company's earnings are typically greater in the second and third quarters and cash flows from operations are greatest in fourth quarter due to seasonality. Demand for CASPI segment products is typically stronger in the second and third quarters due to the increased use of coatings products in the building and construction industries, while demand is typically weaker during the winter months because of seasonal construction downturns. The PCI segment typically has weaker fourth quarter financial results, due in part to a seasonal downturn in demand for products used in certain building and construction and agricultural markets. The Performance Polymers segment typically has stronger demand for its PET polymers for beverage container plastics during the second and early third quarters due to higher consumption of beverages in the U.S. and Canada, while demand typically weakens during the late third and fourth quarters.

In 2009, the impact of the global recession on demand for the Company's products affected the typical yearly trend, resulting in lower earnings in first and second quarters, with increased earnings in the second half of the year. Due to strategic cash management during the first half of the year to counter the effects of the recession and a pension contribution in fourth quarter, cash flows from operations were greatest in third quarter.

CASPI SEGMENT

- Overview

In the CASPI segment, the Company manufactures resins, specialty polymers, and solvents which are integral to the production of paints and coatings, inks, adhesives, and other formulated products. Growth in these markets in the U.S., Canada, and Europe typically approximates general economic growth due to the wide variety of end uses for these applications. Typically, growth in Asia, Eastern Europe, and Latin America continues to be higher than general economic growth, driven by regional growth in these emerging economies. In 2009, the impact of the global recession on demand for the Company's products affected the typical yearly trend. The CASPI segment focuses on producing raw materials rather than finished products and developing long-term, strategic relationships to achieve preferred supplier status with its customers. In 2009, the CASPI segment had sales revenue of $1.2 billion, representing 24 percent of Eastman's total sales.

The profitability of the CASPI segment is sensitive to the global economy, market trends, broader chemical cycles, particularly the olefins cycle, and foreign currency exchange rates. The CASPI segment's specialty products, which include cellulose-based specialty polymers, coalescents, and selected hydrocarbon resins, are less sensitive to the olefins cycle due to their functional performance attributes. The commodity products, which include commodity solvents and base resins, are more impacted by the olefins cycle as discussed under "Manufacturing Streams". The Company seeks to leverage its proprietary technologies, competitive cost structure, and integrated manufacturing facilities to maintain a strong competitive position throughout such cycles.

- Products

Ø Polymers

The polymers product line consists of cellulose-based specialty polymers and olefin-based performance products. Eastman's cellulose-based specialty polymers enhance the aesthetic appeal and improve the performance of industrial and transportation coatings and inks. Olefin-based products are used as base polymers in hot-melt adhesives, paper laminating, sealants and pressure sensitive adhesives. They are also used as elastomer extenders in sealants and waterproofing compounds for wire and cable flooding applications. The polymers product line also includes chlorinated polyolefins which promote the adherence of paints and coatings to plastic substrates. Polymers accounted for approximately 15 percent of the CASPI segment's total sales for 2009.

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Ø Resins

The resins product line consists of hydrocarbon resins, rosin resins, and resin dispersions. These products are sold primarily to adhesive formulators and consumer product companies for use as raw materials essential in hot-melt and pressure sensitive adhesives and as binders in nonwoven products such as disposable diapers, feminine products, and pre-saturated wipes. Eastman offers a broad product portfolio of essential ingredients for the adhesives industry, and ranks as the second largest global tackifier supplier. In addition, Eastman is one of the largest manufacturers of hydrogenated gum rosins used in chewing gum applications. Eastman resins are also used in a wide range of applications including plastics and rubber modification and inks. Resins accounted for approximately 35 percent of the CASPI segment's total sales for 2009.

Ø Solvents

The solvents product line includes both specialty coalescents and ketones and commodity esters, glycol ethers and alcohol solvents. Coalescents include products such as TexanolTM ester alcohol which improves film formation and durability in architectural latex paints. Ketones consist of low volatile organic compound ("VOC") solvents used in high solids coatings applications. Commodity solvents, which consist of esters, glycol ether, and alcohol solvents, are used in both paints and inks to maintain the formulation in liquid form for ease of application. Solvents accounted for approximately 50 percent of the CASPI segment's total sales for 2009.

- Strategy and Innovation

A key element of the CASPI segment's growth strategy is the continued development of innovative product offerings, building on proprietary technologies in high-growth markets and regions to meet customers' evolving needs and improve the quality and performance of customers' end products. Management believes that its ability to leverage the CASPI segment's broad product line and Eastman's research and development capabilities make the segment uniquely capable of offering a broad array of solutions for new and emerging markets. For example, in 2009 Eastman received the Environmental Protection Agency's ("EPA") 2009 Presidential Green Chemistry Challenge Award for its green biocatalytic process. This process is utilized in the CASPI segment products sold in higher-growth markets such as personal and household care.

The Company intends to continue to leverage its resources to strengthen the CASPI segment's product innovation and product enhancement pipeline by meeting market needs and the expanded use of proprietary products and technologies. Although the CASPI segment sales and application development are often specialized by end-use markets, developments in technology can often be successfully shared across multiple end-uses and markets.

The Company's global manufacturing presence is a key element of the CASPI segment's growth strategy. For example, the segment is well positioned to capitalize on expected high industrial growth in China and other parts of Asia from its facility in Singapore and joint venture operations in China. This regional position will be further strengthened by the purchase of a small polymer producer in China which was completed in first quarter 2010. The Company is committed to maintaining reliability of supply of the CASPI segment products to our strategic customers to ensure that Eastman is the supplier of choice. The segment is meeting growing demand for specialty hydrocarbon resins through the 30 percent expansion of the Company's hydrogenated hydrocarbon resins manufacturing capacity in Middelburg, the Netherlands which was completed in 2009.

- Customers and Markets

As a result of the variety of end uses for its products, the customer base for the CASPI segment is broad and diverse. This segment has approximately 825 customers around the world, while 80 percent of its sales revenue in 2009 was attributable to approximately 80 customers. The CASPI segment focuses on establishing long-term, customer service-oriented relationships with its strategic customers in order to become their preferred supplier and to leverage

these relationships to pursue sales opportunities in previously underserved markets and to expand the scope of its value-added services. Growth in the U.S., Canadian, and European markets typically coincides with economic growth in general, due to the wide variety of end uses for these applications and their dependence on the economic conditions of the markets for packaged goods, transportation, durable goods, and housing.

The current regulatory environment, particularly in the U.S., Canada, and Europe, provides both market challenges and opportunities for the CASPI segment. Environmental regulations that impose limits on the emission of VOCs and hazardous air pollutants ("HAPs") continue to impact coatings formulations requiring compliant coatings raw materials. The coatings industry is responding by promoting products and technologies designed to enable customers and end users to reduce air emissions of VOCs and HAPs in compliance with state and federal regulations. A variety of Eastman's CASPI segment products are used in compliance coatings. Additional products are currently being developed to meet the growing demand for low VOC coatings, including the recently introduced SolusTM 2300 product.

- Competition

Competition within the CASPI segment's markets varies widely depending on the specific product or product group. The Company's major competitors in the CASPI segment's markets include larger companies such as BASF SE ("BASF"), Dow Chemical Company ("Dow"), and Exxon Mobil Corporation, which may have greater financial and other resources than Eastman. Additionally, within each CASPI segment product market, the Company competes 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. However, Eastman does not believe that any of its competitors has a dominant position within the CASPI segment's markets, nor the breadth of product offerings that Eastman is able to offer its CASPI segment customers. The Company believes its competitive advantages include its level of vertical integration; breadth of product offerings, service, and technology offerings; low-cost manufacturing position; consistent product quality; security of supply; and process and market knowledge. The CASPI segment principally competes on breadth of products and through leveraging its strong customer base and long-standing customer relationships to promote substantial recurring business and product development.

FIBERS SEGMENT

- Overview

In the Fibers segment, Eastman manufactures and sells EstronTM acetate tow and EstrobondTM triacetin plasticizers for use primarily in the manufacture of cigarette filters; EstronTM natural and ChromspunTM solution-dyed acetate yarns for use in apparel, home furnishings and industrial fabrics; and cellulose acetate flake and acetyl raw materials for other acetate fiber producers. Eastman is one of the world's two largest suppliers of acetate tow and has been a market leader in the manufacture and sale of acetate tow since it began production in the early 1950s. The Company is the world's largest producer of acetate yarn and has been in this business for over 75 years. The Fibers segment's manufacturing operations are primarily located at the Kingsport, Tennessee site, and also include a smaller acetate tow production plant in Workington, England, which was expanded in 2008. In 2009, the Fibers segment had sales revenue of $1.0 billion, representing 21 percent of Eastman's total sales. The Fibers segment remains a strong and stable cash generator for the Company.

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 processes from coal-based acetyl raw materials through acetate tow and yarn provide a competitive advantage over companies whose processes are dependent on petrochemicals. In addition, the Fibers segment 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. Management believes that these factors combine to make

Eastman an industry leader in reliability of supply and cost position. In addition to the cost advantage of being coal-based, the Fibers segment's competitive strengths include a reputation for high-quality products, technical expertise, large scale vertically-integrated processes, reliability of supply, acetate flake supply in excess of internal needs, a reputation for customer service excellence, and a customer base characterized by long-term customer relationships. The Company intends to continue to capitalize and build on these strengths to improve the strategic position of its Fibers segment.

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

In the Fibers segment, construction of the Korean cellulose acetate tow manufacturing facility began in first quarter 2009, and the facility is expected to be operational in first quarter 2010. The facility and related business will be owned by a company formed through an alliance with SK.

•Products

ØAcetate Tow
Eastman manufactures acetate tow under the EstronTM trademark according to a wide variety of customer specifications, primarily for use in the manufacture of cigarette filters. Acetate tow is the largest sales product of the Fibers segment. Worldwide demand for acetate tow is expected to increase by one to two percent per year through 2012, with higher growth rates in Asia.

ØAcetate Yarn
The Company manufactures acetate filament yarn under the EstronTM and ChromspunTM trademarks in a wide variety of specifications. EstronTM acetate yarn is available in bright and dull luster and is suitable for subsequent dyeing in the fabric form. ChromspunTM acetate yarn is solution-dyed in the manufacturing process and is available in more than 100 colors.

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

• Strategy and Innovation

ØGrowth
In the Fibers segment, Eastman is leveraging its strong customer relationships and knowledge of the industry to identify growth options. These growth options are enabled by its excess acetate flake capacity at the Kingsport, Tennessee site. In December 2008, the Company announced an alliance with SK to form a company to acquire and operate a cellulose acetate tow manufacturing facility and related business, with the facility to be constructed by SK in Korea. Eastman will have controlling ownership in the business. Construction of the Korean facility began in first quarter 2009, and the facility is expected to be operational in first quarter 2010 and fully integrated into the Fibers segment's production and sales processes in 2011. Annual capacity at the Korean facility is expected to be approximately 27,000 metric tons, and Eastman's total worldwide capacity for acetate tow will exceed 200,000 metric tons, an increase of approximately 15 percent. The net impact of the added Korean facility on global capacity is estimated to be an increase of approximately two percent versus 2008 industry capacity levels.

ØContinue to Capitalize on Fibers Technology Expertise
The Fibers segment 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.

ØMaintain Cost-Effective Operations and Consistent Cash Flows and Earnings
The Fibers segment intends to continue to operate in a cost effective manner, capitalizing on its technology, scale and vertical integration, and to make further productivity and efficiency improvements through continued investments in research and development.

ØResearch and Development

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.

•Customers and Markets

The customer base in the Fibers segment is relatively concentrated, consisting of approximately 150 companies in the tobacco, textile, and acetate fibers industries. Eastman's Fibers segment customers are located in all regions of the world. The largest 12 customers within the Fibers segment include multinational as well as regional cigarette producers, fabric manufacturers, and other acetate fiber producers. These largest 12 customers accounted for about 80 percent of the segment's total sales revenue in 2009. Sales prices for a significant portion of the Fibers segment's products are typically negotiated on an annual basis. The segment maintains a strong position in acetate tow exports to China, one of the largest and fastest growing markets in the world.

•Competition

Eastman is the second largest acetate tow manufacturer in the world. Competitors in the fibers market for acetate tow include Celanese Corporation ("Celanese"), Daicel Chemical Industries Ltd ("Daicel"), Mitsubishi Rayon Co., Ltd. ("Mitsubishi Rayon"), and Rhodia S.A.. In the acetate tow market, two major competitors, Celanese and Daicel, have joint venture capacity in China.

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

As described above under "Fibers Segment – Overview", the principal methods of competition include maintaining the Company's large-scale vertically integrated manufacturing process from coal-based acetyl raw materials, reliability of supply, product quality, and sustaining long-term customer relationships.

PCI SEGMENT

•Overview

The Company's PCI segment manufactures diversified products that are sold externally, as well as used internally by other segments. The PCI segment's earnings are highly dependent on how the Company chooses to optimize the acetyl and olefins streams. In 2009, the PCI segment had sales revenue of $1.3 billion, representing 26 percent of Eastman's total sales.

Many of the segment's products are affected by the olefins cycle. See "Corporate Overview – Manufacturing Streams" earlier in this "Part 1 – 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. Demand, in turn, is based on general economic conditions, raw material and energy costs, and other factors beyond the Company's control. Future PCI segment results will continue to fluctuate from period to period due to these changing economic conditions.

There are four cracking units located at the Company's Longview, Texas facility. In 2007, the three oldest cracking units were identified for a staged phase-out. Eastman shut down the first of the three units in fourth quarter 2007 and idled the second cracking unit in December 2008. The timing of the permanent shut down of the second and third

cracking units including the idled cracker is dependent on feedstock and olefin market conditions. With the divestiture of the Company's polyethylene business in 2006, the Company has experienced excess ethylene capacity and has reconfigured its cracker position to enhance its long-term olefin production to better match the Company's feedstock requirements.

Approximately 75 percent of the Company's olefin derivatives are made from propylene and sold in the U.S. and Canadian market. The PCI segment believes it is well-positioned in the U.S. and Canadian market for most of its major products, including both acetyl products and olefin derivatives, due to its competitive delivered cost position and supply reliability versus competitors.

• Products

The PCI segment offers over 135 products that include intermediates based on oxo and acetyl chemistries and performance chemicals. The PCI segment's 2009 sales revenue was approximately 50 percent from olefin-based and 35 percent from acetyl-based chemistries, and 15 percent from other. Approximately 65 percent of the PCI segment's sales revenue is generated in the U.S. and Canada, a region in which the Company has a leading market share position for most of its key oxo and acetyl products. Sales in all regions are generated through a mix of the Company's direct sales force and a network of distributors. The Company's PCI segment is the largest marketer of acetic anhydride in the United States, an intermediate that is a critical component of analgesics, laundry care products, and nutritional supplements, and is the only U.S. producer of acetaldehyde, a key intermediate in the production of agricultural and other specialty products. Eastman believes that it manufactures one of the world's broadest ranges of products derived from oxo aldehydes. The PCI segment's other intermediate products include plasticizers and glycols. Many of the intermediates products in the PCI segment are priced based on supply and demand of substitute and competing products. In order to maintain a competitive position, the Company strives to operate with a low cost manufacturing base.

The PCI segment also manufactures performance chemicals, complex organic molecules such as diketene derivatives, specialty ketones, and specialty anhydrides for pharmaceutical, fiber, and food and beverage ingredients, which are typically used in specialty market applications. These specialty products are typically priced based on value added rather than supply and demand factors.

• Strategy and Innovation

To build on and maintain its status as a low cost producer, the PCI segment continuously focuses on cost control, operational efficiency, and capacity utilization to maximize earnings. The shutdown of the first of the three cracking units in Longview, Texas, as part of the staged phase-out of our oldest crackers, with the continued shutdown dependent on feedstock and olefins market conditions, has been part of the initiative to increase operational efficiency. Through the PCI segment, the Company maximizes the advantage of its highly integrated and world-scale manufacturing facilities. For example, the Kingsport, Tennessee manufacturing facility allows the PCI 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 PCI segment uses its proprietary oxo-technology in the world's largest single-site, oxo aldehyde manufacturing facility to produce a wide range of alcohols, esters, and other derivative products utilizing local propane and ethane supplies, as well as purchased propylene. These integrated facilities, combined with large scale production processes and a continuous focus on additional process improvements, allow the PCI segment to remain cost competitive with, and for some products cost-advantaged over, its competitors.

The PCI segment selectively focuses on continuing to develop and access markets with high-growth potential for the Company's chemicals. One such market is for flexible plastic products used in sensitive applications such as toys, child care articles, medical packaging and devices, and food contact. Eastman 168TM plasticizer provides an effective alternative to ortho-phthalate plasticizers traditionally used in these applications. Eastman 168TM plasticizer allows manufacturers to meet the challenging requirements of changing government regulations and consumer preferences without sacrificing production efficiency or product performance.

The Company engages in customer-focused research and development initiatives in order to develop new PCI products and find additional applications for existing products. The Company also evaluates licensing opportunities for acetic acid and oxo derivatives on a selective basis, and has licensed technology to produce acetyl products to Saudi International Petrochemical Company ("SIPCHEM") in Saudi Arabia and to Chang Chun Petrochemical Company ("Chang Chun") in Taiwan in 2005 and 2007, respectively. SIPCHEM started operations in 2009 at its

plant based on this technology and Chang Chun is in the process of building its plant. In first half of 2010, the Company expects to achieve the final milestones associated with the SIPCHEM agreement and to recognize the remaining revenue related to the license. The Company will also purchase acetic anhydride from the SIPCHEM facility.

- Customers and Markets

The PCI segment's products are used in a variety of markets and end uses, including agrochemical, transportation, beverages, nutrition, pharmaceuticals, coatings, flooring, medical devices, toys, photographic and imaging, household products, polymers, textiles, and industrials. Because of its cost position, reliability, and service, the Company has been able to establish and maintain long-term arrangements and relationships with customers. Product-specific olefin derivative market conditions vary based upon prevailing supply and demand conditions. An important trend for the PCI segment's business is a tendency toward regionalization of key markets due to increased transportation costs and local supply in developing geographies from new capacities. The PCI segment benefits from this trend primarily in the U.S. and Canada, but may lose export volume to other markets as this trend continues. The anhydride purchased from the new SIPCHEM facility will give increased access to the Asian market for PCI products. Additionally, the PCI segment is engaged in continuous efforts to optimize product and customer mix. Approximately 80 percent of the PCI segment's sales revenue in 2009 was from 112 out of approximately 900 customers worldwide.

- Competition

Historically, there have been significant barriers to entry for potential competitors in the PCI segment's major product lines, including acetic acid and acetic anhydride, primarily due to the fact that the relevant technology has been held by a small number of companies. As this technology has become more readily available, competition from multinational chemical manufacturers has intensified. Eastman competes with these and other producers primarily based on price, as products are generally interchangeable, but also on technology, marketing, and services. Eastman's major competitors in this segment include large multinational companies such as BASF, Celanese, Dow, and Exxon Mobil Corporation. While some competitors in PCI's product markets may have greater financial resources than Eastman, the Company believes it maintains a strong competitive position due to the combination of its scale of operations, breadth of product line, level of integration, and technology leadership.

PERFORMANCE POLYMERS SEGMENT

- Overview

In 2009, the Performance Polymers segment had sales revenue of $719 million, representing 14 percent of the Company's total sales. The segment is comprised primarily of the Company's PET product lines, and also includes various polymer intermediates.

In 2008, the Company completed strategic actions intended to improve the operating results of the Performance Polymers segment. The Company shut down 300,000 metric tons of higher cost assets in 2008 after having shut down 100,000 metric tons of higher cost PET assets during 2007, some of which were converted to Specialty Plastics production. In fourth quarter 2008, the Company also completed a debottleneck of its IntegRexTM technology facility in South Carolina, bringing its IntegRexTM capacity to 525,000 metric tons. Operational difficulties following this debottleneck persisted throughout 2009. These operational difficulties resulted in additional costs as well as negative impact on sales revenue through an unfavorable shift in customer and market mix contributing to an operating loss for the year. The Company completed a shutdown of the facility in fourth quarter 2009 to correct these problems. In first quarter 2010, the IntegRexTM-based facility located in Columbia, South Carolina is demonstrating the capability to produce improved quality ParaStar TM PET products at the facility's nameplate capacity of 525,000 metric tons. The Company expects smaller Performance Polymers segment losses in 2010 based on this improved operational performance and the resulting capability for a more profitable mix of product sales.

The Company's PET product pricing and profitability have historically been most affected by raw material costs and industry capacity utilization. PET global supply has exceeded demand since 1997 as a result of capacity being introduced into the market at a rate exceeding that of demand growth. While the global demand for PET continues to increase steadily, the Company sells PET primarily in the North American Free Trade Agreement ("NAFTA") region, which is projected to have lower Gross Domestic Product ("GDP") and PET demand growth than the overall global PET market. Excess Asian PET capacity and related exports are expected to continue to have an adverse impact on PET pricing and profitability worldwide, particularly in the NAFTA region. In addition, a significant capacity expansion by a competitor in late 2009 is expected to contribute to a continued challenging business environment and negatively impact PET profitability in the NAFTA region.

- Products

PET is used in beverage and food packaging and other applications such as personal care and cosmetics packaging, health care and pharmaceutical uses, household products, carpet fibers, and industrial packaging applications. PET offers fast and easy processing, superb clarity and color consistency, durability and strength, impact and chemical resistance, and high heat stability. Packages made from PET are characterized by their light weight, gloss, high strength, durability, clarity, low cost, safety, and recyclability.

- Strategy and Innovation

Ø Operational Efficiency

The Performance Polymers segment focuses on improving its performance by directing its research and development efforts to lowering its manufacturing costs through technology innovations and process improvement. These efforts resulted in the development of IntegRexTM technology, a lower cost PTA and PET manufacturing process that provides manufacturing and capital cost savings compared to conventional technologies.

Ø Licensing

As a strategic initiative to create and capture additional value from the IntegRex™ technology, the Company is actively pursuing a licensing program. IntegRex™ technology provides significant capital and operating cost benefits relative to conventional PTA and PET technologies. The Company is offering licensees use of its Eastman-owned patents and expertise in the design, construction, and operation of a full range of production facilities, including IntegRex™ PTA, IntegRex™ PET, or integrated configurations of the two processes. Also, as the Company improves the IntegRex™ technology for its own use, it expects it may offer these enhancements to its licensees.

- Customers and Markets

Approximately 20 customers within the Performance Polymers segment accounted for more than 80 percent of the segment's total sales revenue from continuing operations in 2009. The segment serves PET customers in the NAFTA region who are primarily PET container producers for large volume beverage markets such as carbonated soft drinks, water, and juice, with strong participation in custom areas such as food, liquor, sport and fruit beverages, health and beauty aids, and household products. PET is a preferred material for recyclable, single-serve containers and as a substitute for glass and aluminum packaging. PET market volume growth rates in the NAFTA region are projected to be below GDP in the region for the next several years due to reduced consumption of carbonated soft drinks and continued light weighting of bottles, while new capacity has been added by a competitor in the U.S. Although near-term growth in demand is uncertain, the Company projects the demand in the NAFTA region for PET to grow by approximately two to three percent annually on a long-term basis.

- Competition

The Company's PET product lines compete to a large degree on price in a capital intensive industry. Profitability is dependent on attaining low cost positions through technology innovation, manufacturing scale, capacity utilization, access to reliable and competitive utilities, energy and raw materials, and efficient manufacturing and distribution processes.

The Company's PET production is vertically integrated back to the raw material paraxylene. This gives Eastman a cost advantage and reliable intermediate supply.

As a result of recent strategic actions, the Performance Polymers segment competes primarily in the NAFTA region. Major competitors in the NAFTA region for the Performance Polymers segment include DAK Americas

LLC, Indorama Group, Invista, Mossi & Ghisolfi Group, Nan Ya Plastics Corporation, and Wellman Inc., as well as Asian PET exporters. Comprised of many competitors, imports hold approximately 15 percent market share in the NAFTA region and are expected to continue to have an adverse impact on PET pricing and profitability due to the large excess capacity in Asia. In 2010, a major competitor is bringing additional capacity to the market from an expansion in late 2009, resulting in further stress on pricing and profitability.

SPECIALTY PLASTICS SEGMENT

- Overview

In the Specialty Plastics segment, the Company produces and markets specialized copolyesters and cellulosic plastics that possess differentiated performance properties for value-added end uses. In 2009, the Specialty Plastics segment had sales revenue of $749 million, approximately 15 percent of Eastman's total sales.

Eastman has the ability within its Specialty Plastics segment to modify its polymers and plastics to control and customize their final properties, creating numerous opportunities for new application development, including the expertise to develop new materials and new applications starting from the molecular level in the research laboratory to the final designed application. Recent industry trends in various markets have renewed customers' interest in some of the unique attributes offered by Eastman materials. Such trends include, but are not limited to, interest in halogen-free and bisphenol A ("BPA")-free plastics, as well as plastics that have superior chemical and mechanical properties to withstand increasing demands in specific applications. The addition of the Eastman Tritan™ family of products significantly enhances the segment's ability to customize copolyesters and cellulosic plastics for new markets and applications. In addition, the Specialty Plastics segment has a long history of manufacturing excellence with strong process improvement programs providing continuing cost reduction.

- Products

The Specialty Plastics segment consists of two primary product lines, specialty copolyesters and cellulosics. Eastman estimates that the market growth for copolyesters will continue to be higher than general domestic economic growth due to ongoing specialty copolyester material innovations and displacement opportunities. Eastman believes that cellulosic materials will grow at the rate of the domestic economy in general, with the strong demand for cellulose esters in liquid crystal displays more than offsetting the decline in legacy photographic markets. For both specialty copolyesters and cellulosic plastics, the Specialty Plastics segment benefits from integration into the Company's polyester and acetyls streams. The Specialty Plastics segment's specialty copolyesters are currently produced in Kingsport, Tennessee; Columbia, South Carolina; and Kuantan, Malaysia. The cellulosic products are produced in Kingsport, Tennessee.

Ø Specialty Copolyesters

Eastman's specialty copolyesters accounted for approximately 80 percent of the Specialty Plastics segment's 2009 sales revenue. Eastman's specialty copolyesters, which generally are based on Eastman's production of cyclohexane dimethanol ("CHDM") modified polymers, typically fill a market position between polycarbonates and acrylics. Polycarbonates traditionally have offered some superior performance characteristics, while acrylics have been less expensive. Specialty copolyesters combine superior performance with competitive pricing and are being substituted for both polycarbonates and acrylics in some applications.

The Specialty Plastics segment continues to develop new applications for its core copolyesters to meet growing demand for more environmentally-friendly copolyester products. During 2009, Eastman commercialized a new copolyester for the personal care packaging segment, which now represents the clearest copolyester with the highest chemical resistance used in this application. The segment also experienced significant growth in copolyesters for clear handleware applications, where Eastman's materials offer a unique merchandising solution. Through broadening its Embrace™ family of products, Eastman has continued to see growth in shrink packaging in Embace LV™ as well as Embrace HY™. The family of offerings in the shrink segment has made Eastman the leading provider of resins for full body shrink labels. Eastman's newest copolyester, Tritan™, enables the Company to move to higher value applications by adding high temperature resistance to the other properties of copolyesters, including toughness, chemical resistance, and excellent processability.

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Ø Cellulosic Plastics

Cellulosics and cellulosic plastics accounted for approximately 20 percent of the Specialty Plastics segment's 2009 sales revenue. Sold under the TeniteTM brand, these products are known for their excellent balance of properties, including toughness, hardness, strength, surface gloss, clarity, chemical resistance, and warmth to the touch. This product line includes TeniteTM acetate, TeniteTM butyrate, and TeniteTM propionate flake and polymers, as well as a family of colored products for each line.

In 2006, Eastman first commercialized a new family of cellulosic polymers, VisualizeTM cellulosics, for the liquid crystal display ("LCD") market. Through the development of new formulations and applications, Eastman's LCD product line has continued to benefit from demand growth in the LCD market.

- Strategy and Innovation

The Specialty Plastics segment is focused on providing consistent profit margins and generating cash which the Company can reinvest in the Specialty Plastics segment's business for continued growth. The Company continues to leverage the advantages of being an integrated polyester manufacturer and expects to continue to pursue opportunities within the integrated polyester stream. The Company is utilizing rationalized PET assets to reduce Specialty Plastics copolyester conversion costs and expand production with larger scale assets.

Through Eastman's advantaged asset position and innovation efforts around applications development, the segment has increased specialty copolyesters sales volume to twice U.S. GDP growth over the past 5 years. During 2009, Eastman significantly increased its share in the shrink film market by developing new applications for its family of products that now include Embrace™, Embrace LV™ and Embrace HY™. The trend of influencing the purchasing decision with product design has also benefited Eastman's clear handleware solutions for large containers. Additionally, increased health concerns related to BPA have created new opportunities for various applications for legacy copolyesters. Also during 2009, Eastman developed a proprietary copolyester resin for the coating of hard surfaces. This surface offers a low VOC, paintable and highly durable alternative to current coating technologies.

The LCD market is a developing growth market for the Specialty Plastics segment. The Company continues to invest in the development of copolyester and cellulosic-based product solutions for this high-growth market, with the objective of being a strategic raw material supplier in the LCD market. The downturn which began during the fourth quarter 2008 in the LCD industry created renewed interest in solutions that provide an optimum balance between cost and performance, and Eastman's developmental product pipeline in LCDs we believe is now well positioned for anticipated growth in this market.

The addition of Tritan™ copolyester to Eastman's Specialty Plastics product offering has created new opportunities for applications previously occupied by materials such as polycarbonate or polysulfone. During 2009, Eastman has gained substantial market share in certain food contact applications such as water bottles and other consumer houseware applications through OEMs and brand owners requirement for Tritan™ copolyester properties. The construction of a new monomer facility as well as a new polymer facility was completed in 2009. Both facilities will be operational in early 2010. The monomer facility will produce a proprietary monomer required in the production of Tritan™ copolyester while the polymer facility will be capable of producing 30,000 metric tons of Tritan™ polymer. Given the successful market introduction of Tritan™ copolyester and rapid demand growth, the monomer facility was designed to be capable of supplying a second Tritan™ copolyester manufacturing facility of 30,000 metric tons per year. The timing for the construction of the second Tritan™ polyester facility is dependent on the market adoption rate for these products.

- Customers and Markets

The customer base in the Specialty Plastics segment is broad and diverse, consisting of approximately 620 companies worldwide in a variety of industries. Approximately 80 percent of the Specialty Plastics segment's 2009 sales revenue was attributable to approximately 65 customers. The Specialty Plastics segment seeks to develop mutually beneficial relationships with its customers throughout various stages of product life cycles. By doing so, it is better able to understand its customers' needs as those customers develop new products and more effectively bring new solutions to market.

Specialty copolyesters are sold into a wide range of markets and applications including specialty packaging (medical and electronic component trays, shrink label films, general purpose packaging, and multilayer films); in-store fixtures and displays (point of purchase displays including indoor sign and store fixtures); consumer and durable goods (appliances, housewares, toys, and sporting goods); medical goods (disposable medical devices, health care equipment and instruments, and pharmaceutical packaging); personal care and consumer packaging (food and beverage packaging and consumer packaging); photographic film, optical film, fibers/nonwovens, tapes/labels, and LCD. The new Tritan™ family of products is being sold into a range of markets including, but not limited to, consumer housewares, infant care, small appliances and other consumer durables segments. Additional applications and markets are currently under development.

- Competition

The segment principally competes by leveraging price and product performance in specific applications. The customers' product selection is typically determined on an application-by-application basis and often by OEMs rather than by resin converters. New market opportunities are coming from substitution of plastic for other materials, and displacement of other plastic resins in existing applications. While historically the Specialty Plastics segment's ability to compete was very closely tied to supply-demand balances of competing plastics, the addition of Tritan™, a material based on Eastman proprietary technology, opens new market opportunities in which Eastman expects to leverage the unique combination of properties of the new family of products. In certain cases, the Company believes that Tritan™ offers a unique solution by bringing properties similar to polycarbonate without containing any BPA. In food applications, the fact that copolyesters are both BPA and halogen-free makes them an attractive alternative to materials such as polycarbonate and other plastics, respectively. In addition, the combination of excellent clarity and superior processability allows for the production of unique and attractive packaging that allows brand owners to differentiate themselves on the retail shelf. Examples of such applications include, but are not limited to, shrink film made from Eastman's Embrace™ copolyester family of products, as well as clear handleware containers produced from Eastman copolyesters.

The Specialty Plastics segment believes that it maintains competitive advantages throughout the product life cycle. At product introduction, the segment's breadth of offerings combined with its research and development capabilities and customer service orientation enable it to quickly bring a wide variety of products to market. As products enter the growth phase of the life cycle, the Specialty Plastics segment is able to continue to leverage its product breadth by generating sales revenue from multiple sources, as well as retaining customers from long-term relationships. As products become more price sensitive, the Specialty Plastics segment can take advantage of Eastman's scale of operations, including conversion of rationalized PET assets and vertical integration to maintain a superior product conversion cost position.

In recent years, the industry has been confronted by unprecedented raw material cost volatility. While raw material cost volatility is expected to continue into the future, Eastman maintains a competitive advantage from diversification of its raw materials base by using both coal for cellulosics, as well as petrochemical-based feedstocks for copolyesters.

Eastman's primary competitors for copolyester products include Bayer AG, Dow, Evonvik Industries, Saudi Basic Industries Corporation ("SABIC"), and SK Chemical Industries. Competition for cellulosic plastics is primarily from other producers of cellulose ester polymers such as Acetati SpA and Daicel.

REGIONAL BUSINESS OVERVIEW

Eastman operates as a global business with approximately 45 percent of its sales and 50 percent of its operating earnings, excluding asset impairments and restructuring charges, generated from outside of the U.S. and Canadian region in 2009. As the Company focuses on growth in emerging markets, these percentages are expected to increase. While manufacturing is centered in the U.S., the Company has the ability to transport products globally to meet demand. In 2009, all regions were affected by the global recession, but the degree of the impact on the various regions was dependent on the mix of the Company's segments in the region. Regions are classified as United States and Canada; Asia Pacific; Europe, Middle East, and Africa; and Latin America. In 2009, the mix of regional revenue from the segments was as follows:

	United States and Canada	Asia Pacific	Europe, Middle East, and Africa	Latin America
CASPI	25 %	20 %	35 %	25 %
Fibers	10 %	45 %	30 %	15 %
PCI	30 %	20 %	15 %	20 %
Performance Polymers	20 %	-- %	-- %	35 %
Specialty Plastics	15 %	15 %	20 %	5 %
Total	100 %	100 %	100 %	100 %

The United States and Canada region contains the highest concentration of the Company's long-lived assets with approximately 90 percent located in the United States. We believe that the location of these manufacturing facilities provides the Company with an advantaged delivered cost position for our domestic customers, particularly for commodity and bulk products. The PCI segment accounts for approximately one-third 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. As the PCI and Performance Polymers segments account for one-half of the region's revenue, the region is subject to increased variability in revenues due to the effect of raw material and energy prices on these segments' selling prices.

A large percentage of revenue in the Asia Pacific region is from acetate tow products in the Fibers segment while minimal PET products in the Performance Polymers segment are sold in the region. Both factors contribute to less volatile price effect on revenue. The region consists of many emerging growth markets served by Eastman products, including specialty products in the CASPI segment and acetate tow for filters, particularly in China. The Company is responding to the growth by strengthening its position through joint ventures and acquisitions such as the alliance with SK.

The Europe, Middle East, and Africa region benefits from fewer sales from commodity product lines than any other region and therefore is less affected by economic downturns and price is less dependent on raw material costs compared to other regions. The favorable product mix is a result of a higher percentage of the region's revenue being derived from the Fibers and Specialty Plastics segments and less from the PCI and Performance Polymers segments.

The Latin America region has the largest impact from the Performance Polymers segment of all the regions. Combined with sales revenue from the PCI segment of approximately 20 percent, the region is subject to increased volatility in sales volume and selling prices.

CORPORATE INITIATIVES

In addition to its business segments, the Company manages certain costs and initiatives at the corporate level, including certain research and development ("R&D") costs not allocated to any one operating segment. The Company uses a disciplined decision making framework for evaluating targeted opportunities.

One such corporate initiative was the Company's Beaumont, Texas industrial gasification project. In fourth quarter 2009, the Company announced the discontinuation of this project. However, the Company continues to explore global industrial gasification opportunities as a long-term growth option. The Company also continues to explore and invest in R&D initiatives that are aligned with macro trends in sustainability, consumerism, and energy efficiency through high performance materials, advanced cellulosics, environmentally-friendly chemistry, and process improvements.

In 2009, operating losses for corporate initiatives were $217 million, including $179 million in asset impairments related to the discontinuance of its Beaumont, Texas industrial gasification project, compared with $52 million in 2008.

EASTMAN CHEMICAL COMPANY GENERAL INFORMATION

Sales, Marketing, and Distribution

The Company markets and sells products primarily through a global marketing and sales organization which has a presence in the United States and in over 35 other countries selling into approximately 100 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, and technical expertise are critical capabilities. Through a highly skilled and specialized sales force that is capable of providing customized business solutions for each of its five operating segments, Eastman is able to establish long-term customer relationships and strives to become the preferred supplier of specialty chemicals and plastics worldwide.

The Company's products are also marketed through indirect channels, which include distributors and contract representatives. Non-U.S. sales tend to be made more frequently through distributors and contract representatives than U.S. sales. The combination of direct and indirect sales channels, including sales online through its website, allows Eastman to reliably serve customers throughout the world.

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

Sources and Availability of Raw Material and Energy

Eastman purchases a substantial portion, estimated to be approximately 75 percent, of its key raw materials and energy through long-term contracts, generally of three to five years in initial duration with renewal or cancellation options for each party. Most of these agreements do not require the Company to purchase materials or energy if its operations are reduced or idle. The cost of raw materials and energy is generally based on market price at the time of purchase, and Eastman uses derivative financial instruments, valued at quoted market prices, to mitigate the impact of short-term market price fluctuations. Key raw materials include propane, ethane, paraxylene, ethylene glycol, PTA, coal, cellulose, methanol, 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 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, or due to domestic or world market and

political 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 been in the past and may be in the future, at times, adversely affected by these factors. The Company's raw material and energy costs as a percent of total cost of operations were approximately 60 percent in 2009 compared to 70 percent in 2008 and 2007.

Capital Expenditures

Capital expenditures were $310 million, $634 million, and $518 million for 2009, 2008, and 2007, respectively. The decreased capital spending in 2009 was primarily due to the Company's response to the current global recession and consisted of required maintenance and certain strategic growth initiatives including the creation of increased capacity for Eastman TritanTM copolyester, the front-end engineering and design for the industrial gasification project, reconfiguration of the Longview, Texas facility, and expansion of the Company's hydrogenated hydrocarbon resins manufacturing capacity in Middelburg, the Netherlands.

Employees

Eastman employs approximately 10,000 men and women worldwide. Approximately 4 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 70 percent of the Company's 2009 sales revenue.

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 and diverse portfolio of both specialty and commodity chemicals, plastics, and fibers, Eastman owns over 750 active United States patents and more than 1,200 active foreign patents, expiring at various times over several years, and also owns over 2,500 active worldwide trademark applications and registrations. The Company's intellectual property relates to a wide variety of products and processes. 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 core 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 PCI segment. The Company also is actively pursuing licensing opportunities for oxo derivatives in the PCI segment and its IntegRexTM technology in the Performance Polymers segment.

Research and Development

For 2009, 2008, and 2007, Eastman's research and development expenses totaled $137 million, $158 million, and $156 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 a manner that 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 U.S. Clean Air Act and Resource Conservation and Recovery Act, and related actions of regulatory agencies, determine the timing and amount of environmental costs incurred by the Company. Likewise, when finalized, proposed legislation related to climate change and implementing regulations could impact the timing and amount of environmental costs incurred by the Company.

The Company accrues environmental costs when it is probable that the Company has incurred a liability and the amount can be reasonably estimated. In some instances, the amount cannot be reasonably estimated due to insufficient information, particularly as to the nature and timing of future expenditures. In these cases, the liability is monitored until such time that sufficient data exists. With respect to a contaminated site, the amount accrued reflects the Company's assumptions about remedial 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 estimated to be approximately $173 million, $218 million, and $209 million, in 2009, 2008, and 2007, respectively. These amounts were primarily for operating costs associated with environmental protection equipment and facilities, but also included expenditures for construction and development. The Company does not expect future environmental capital expenditures arising from requirements of recently promulgated environmental laws and regulations to materially increase the Company's planned level of annual capital expenditures for environmental control facilities.

Other matters concerning health, safety, and the environment are discussed in Management's Discussion and Analysis of Financial Condition and Results of Operations in Part II Item 7 and in Notes 1, "Significant Accounting Policies", 12, "Environmental Matters", and 25, "Reserve Rollforwards" to the Company's consolidated financial statements in Part II, Item 8 of this Annual Report.

Backlog

On January 1, 2010 and 2009, 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.

Financial Information About Geographic Areas

For sales revenue and long-lived assets by geographic areas, see Note 22, "Segment Information", to the Company's consolidated financial statements in Part II, Item 8 of this Annual Report. For information about regional sales and earnings, see "Regional Business Overview" above in this "Business" section of this Annual Report.

Available Information – SEC Filings and Corporate Governance Materials

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

The Company also makes available free of charge, through the "Investors – Corporate Governance" section of its Internet website (www.eastman.com), the Corporate Governance Guidelines of its Board of Directors, the charters of each of the committees of the Board, and codes of ethics and business conduct for directors, officers and employees. Such materials are also available in print upon the written request of any stockholder to Eastman Chemical Company, P.O. Box 431, Kingsport, Tennessee 37662-5280, Attention: Investor Relations.

ITEM 1A. RISK FACTORS

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

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

EXECUTIVE OFFICERS OF THE COMPANY

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

J. Brian Ferguson, age 55, is Executive Chairman of the Board. Mr. Ferguson joined the Company in 1977. He was named Vice President, Industry and Federal Affairs in 1994, became Managing Director, Greater China in 1996, was named President, Eastman Chemical Asia Pacific in 1998, became President, Polymers Group in 1999, became President, Chemicals Group in 2001, and was elected Chairman of the Board and Chief Executive Officer in 2002. Mr. Ferguson was appointed to his current position in May 2009 when James P. Rogers succeeded him as Chief Executive Officer.

James P. Rogers, age 58, is Chief Executive Officer, President of Eastman Chemical Company, and is a member of the Board of Directors. He served as President and head of the Chemicals & Fibers Business Group at the time of his current appointment. Mr. Rogers was appointed Executive Vice President of the Company and President of Eastman Division effective November 2003. Mr. Rogers joined the Company in 1999 as Senior Vice President and Chief Financial Officer and in 2002 was also appointed Chief Operations Officer of Eastman Division. Mr. Rogers served previously as Executive Vice President and Chief Financial Officer of GAF Materials Corporation ("GAF"). He also served as Executive Vice President, Finance, of International Specialty Products, Inc., which was spun off from GAF in 1997. Mr. Rogers was appointed to his current position in May 2009.

Mark J. Costa, age 43, is Executive Vice President, Specialty Polymers, Coatings and Adhesives, and Chief Marketing Officer. Mr. Costa joined the Company in June 2006 as Senior Vice President, Corporate Strategy & Marketing and was appointed Executive Vice President, Polymers Business Group Head and Chief Marketing Officer in August 2008. Prior to joining Eastman, Mr. Costa was a senior partner within Monitor Group's integrated North American and global client service networks. He joined Monitor 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, including specialty and commodity chemicals, electricity, natural gas and truck/auto manufacturing. Mr. Costa was appointed to his current position in May 2009.

Richard L. Johnson, age 60, is Senior Vice President, Fibers and Global Supply Chain. Prior to being named to this position, Mr. Johnson was Vice President and General Manager of Fibers. Mr. Johnson joined Eastman in 1971 and held numerous positions in environmental programs, operations and manufacturing until he became Superintendent of the Cellulose Esters Division in 1991. He was named Superintendent of the Acetate Tow Division in 1993, became Vice President and General Manager of Fibers in 1996, and Group Vice President of Fibers in 2002. Mr. Johnson was named Group Vice President of Performance Chemicals, Intermediates, and Fibers in 2006. Mr. Johnson was appointed to his current position in May 2009.

Ronald C. Lindsay, age 51, is Executive Vice President, Performance Polymers and Chemical Intermediates. He joined Eastman in 1980 and held a number of positions in various manufacturing and business organizations. In 2003, Mr. Lindsay was appointed Vice President and General Manager of Intermediates, in 2005 became Vice President, Performance Chemicals, in 2006 was appointed Senior Vice President and Chief Technology Officer, and in 2008 was appointed Senior Vice President, Corporate Strategy and Regional Leadership. He was appointed to his current position in May 2009.

Curtis E. Espeland, age 45, is Senior Vice President and Chief Financial Officer. Mr. Espeland joined Eastman in 1996, and has served in various financial management positions of increasing responsibility, including Vice President, Finance, Polymers; Vice President, Finance, Eastman Division; Vice President and Controller; Director of Corporate Planning and Forecasting; Director of Finance, Asia Pacific; and Director of Internal Auditing. He served as the Company's Chief Accounting Officer from December 2002 to 2008. Prior to joining Eastman, Mr. Espeland was an

audit and business advisory manager with Arthur Andersen LLP in the United States, Eastern Europe, and Australia. Mr. Espeland was appointed to his current position in September 2008.

Theresa K. Lee, age 57, is Senior Vice President, Chief Legal Officer and Corporate Secretary. Ms. Lee joined Eastman as a staff attorney in 1987, and has served in various legal management positions of increasing responsibility, including Assistant General Counsel for the health, safety, and environmental legal staff, Assistant General Counsel for the corporate legal staff, and Vice President, Associate General Counsel and Secretary. She became Vice President, General Counsel, and Corporate Secretary of Eastman in 2000 and was appointed to her current position in 2002.

Greg W. Nelson, age 47, is Senior Vice President and Chief Technology Officer. Dr. Nelson joined Eastman in 1988 in the Research and Development organization, and served in various positions in technology, including Technology Manager for the Flexible Plastics business, Vice President, Polymers Technology, and Vice President Corporate Technology from 2007 until appointed to his current position in August 2008.

Norris P. Sneed, age 54, is Senior Vice President, Manufacturing Support and Chief Administrative Officer. Mr. Sneed joined the Company as a chemical engineer at Eastman's South Carolina Operations in 1979. He has served in various management positions of increasing responsibility, including superintendent for different manufacturing and new business development departments at Eastman's Arkansas operations, assistant to the Chief Executive Officer, managing director for Eastman's Argentina operations, Vice President of Organization Effectiveness, and Senior Vice President, Human Resources, Communications and Public Affairs. Mr. Sneed was appointed to his current position in May 2009.

Scott V. King, age 41, is Vice President, Controller and Chief Accounting Officer. Since joining Eastman in 1999 as Manager, Corporate Consolidations and External Reporting, he has held various positions of increasing responsibility in the financial organization, and was appointed Vice President and Controller in August 2007. Prior to joining Eastman, Mr. King was an audit and business advisory manager with PricewaterhouseCoopers LLP. Mr. King was appointed to his current position in September 2008.

ITEM 2. PROPERTIES

PROPERTIES

At December 31, 2009, Eastman operated eleven manufacturing sites in seven countries. Utilization of these facilities may vary with product mix and economic, seasonal, and other business conditions; however, none of the principal plants are substantially idle. The Company's plants, including approved expansions, generally have sufficient capacity for existing needs and expected near-term growth. These plants are generally well maintained, in good operating condition, and suitable and adequate for their use. Unless otherwise indicated, all of the properties are owned. The locations and general character of the major manufacturing facilities are:

	Segment using manufacturing facility				
Location	CASPI	Fibers	PCI	Performance Polymers	Specialty Plastics
USA					
Jefferson, Pennsylvania	x				
Columbia, South Carolina				x	x
Kingsport, Tennessee	x	x	x	x	x
Longview, Texas	x		x	x	x
Franklin, Virginia(1)	x				
Europe					
Workington, England		x			
Middelburg, the Netherlands	x				
Asia Pacific					
Kuantan, Malaysia (1)					x
Jurong Island, Singapore (1)	x		x		
Zibo City, China(2)	x		x		
Latin America					
Uruapan, Mexico	x				

(1) Indicates a location that Eastman leases from a third party.
(2) Eastman holds a 51 percent share in the joint venture Qilu Eastman Specialty Chemical Ltd.

Eastman has a 50 percent interest in Primester, a joint venture that manufactures cellulose acetate at Eastman's Kingsport, Tennessee plant. The production of cellulose acetate is an intermediate step in the manufacture of acetate tow and other cellulose acetate based products. The Company also has a 50 percent interest in a manufacturing facility in Nanjing, China. The Nanjing facility produces EastotacTM hydrocarbon tackifying resins for pressure-sensitive adhesives, caulks, and sealants. EastotacTM hydrocarbon resins are also used to produce hot melt adhesives for packaging applications in addition to glue sticks, tapes, labels, and other adhesive applications.

Eastman has distribution facilities at all of its plant sites. In addition, the Company owns or leases approximately 75 stand-alone distribution facilities in the United States and 15 other countries. Corporate headquarters are in Kingsport, Tennessee. The Company's regional headquarters are in Miami, Florida; Capelle aan den Ijssel, the Netherlands; Zug, Switzerland; Singapore; and Kingsport, Tennessee. Technical service is provided to the Company's customers from technical service centers in Kingsport, Tennessee; Kirkby, England; Shanghai, China and

Singapore. Customer service centers are located in Kingsport, Tennessee; Capelle aan den Ijssel, the Netherlands; Miami, Florida; and Singapore.

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

ITEM 3. LEGAL PROCEEDINGS

General

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

Jefferson (Pennsylvania) Environmental Proceeding

In December 2005, Eastman Chemical Resins, Inc., a wholly-owned subsidiary of the Company (the "ECR Subsidiary"), received a Notice of Violation ("NOV") from the United States Environmental Protection Agency's Region III Office ("EPA") alleging that the ECR Subsidiary's West Elizabeth, Jefferson Borough, Allegheny County, Pennsylvania manufacturing operation violated certain federally enforceable local air quality regulations and certain provisions in a number of air quality-related permits. In October 2006, the EPA referred the matter to the United States Department of Justice's Environmental Enforcement Section ("DOJ"). Company representatives have met with the EPA and DOJ on a number of occasions since the NOV's issuance and have determined that it is not reasonably likely that any civil penalty assessed by the EPA and DOJ will be less than $100,000. While the Company intends to vigorously defend against these allegations, this disclosure is made pursuant to Securities and Exchange Commission Regulation S-K, Item 103, Instruction 5.C., which requires disclosure of administrative proceedings commenced under environmental laws that involve governmental authorities as parties and potential monetary sanctions in excess of $100,000. The Company believes that the ultimate resolution of this proceeding will not have a material impact on the Company's financial condition, results of operations, or cash flows.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

There were no matters submitted to a vote of the Company's stockholders during fourth quarter of 2009.

PART II

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

(a) Eastman Chemical Company's ("Eastman" or the "Company") common stock is traded on the New York Stock Exchange ("NYSE") under the symbol "EMN". The following table presents the high and low sales prices of the common stock on the NYSE and the cash dividends per share declared by the Company's Board of Directors for each quarterly period of 2009 and 2008.

		High	Low	Cash Dividends Declared
2009	First Quarter	$ 34.15	$ 17.76	$ 0.44
	Second Quarter	45.85	26.14	0.44
	Third Quarter	55.88	34.57	0.44
	Fourth Quarter	61.95	49.85	0.44
2008	First Quarter	$ 67.77	$ 56.31	$ 0.44
	Second Quarter	78.29	62.16	0.44
	Third Quarter	69.45	52.91	0.44
	Fourth Quarter	55.22	25.87	0.44

As of December 31, 2009, there were 72,468,042 shares of the Company's common stock issued and outstanding, which shares were held by 23,712 stockholders of record. These shares include 82,674 shares held by the Company's charitable foundation. The Company has declared a cash dividend of $0.44 per share during the first quarter of 2010, payable on April 1, 2010 to stockholders of record on March 15, 2010. Quarterly dividends on common stock, if declared by the Company's Board of Directors, are usually paid on or about the first business day of the month following the end of each quarter. The payment of dividends is a business decision made by the Board of Directors from time to time based on the Company's earnings, financial position and prospects, and such other considerations as the Board considers relevant. Accordingly, while management currently expects that the Company will continue to pay the quarterly cash dividend, its dividend practice may change at any time.

See Part III, Item 12 — "Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters—Securities Authorized for Issuance Under Equity Compensation Plans" of this 2009 Annual Report on Form 10-K ("Annual Report") for the information required by Item 201(d) of Regulation S-K.

(b) Not applicable.

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

Period	Total Number of Shares Purchased (1)	Average Price Paid Per Share (2)	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (3)	Approximate Dollar Value (in Millions) that May Yet Be Purchased Under the Plans or Programs (3)
October 1- 31, 2009	--	$ --	0	$ 117
November 1-30, 2009	54,400	$ 59.35	54,400	$ 113
December 1-31, 2009	300,000	$ 59.01	300,000	$ 96
Total	354,400	$ 59.06	354,400	$ 96

(1) Shares repurchased under a previously announced Company repurchase plan.
(2) Average price paid per share reflects the weighted average purchase price paid for share repurchases.
(3) In October 2007, the Board of Directors authorized $700 million for repurchase of the Company's outstanding common shares at such times, in such amounts, and on such terms, as determined to be in the best interests of the Company. As of December 31, 2009, a total of 9.7 million shares have been repurchased under this authorization for a total amount of $604 million. For additional information, see Note 14, "Stockholders' Equity", to the Company's consolidated financial statements in Part II, Item 8 of this Annual Report.

ITEM 6. SELECTED FINANCIAL DATA

Summary of Operating Data	Year Ended December 31,				
(Dollars in millions, except per share amounts)	2009	2008	2007	2006	2005
Sales	$ 5,047	$ 6,726	$ 6,830	$ 6,779	$ 6,460
Operating earnings	317	519	504	654	740
Earnings from continuing operations	136	328	321	427	541
Earnings (loss) from discontinued operations	--	--	(10)	(18)	16
Gain (loss) from disposal of discontinued operations	--	18	(11)	--	--
Net earnings	$ 136	$ 346	$ 300	$ 409	$ 557
Basic earnings per share					
Earnings from continuing operations	$ 1.88	$ 4.36	$ 3.89	$ 5.20	$ 6.70
Earnings (loss) from discontinued operations	--	0.23	(0.26)	(0.22)	0.20
Net earnings	$ 1.88	$ 4.59	$ 3.63	$ 4.98	$ 6.90
Diluted earnings per share					
Earnings from continuing operations	$ 1.85	$ 4.31	$ 3.84	$ 5.12	$ 6.61
Earnings (loss) from discontinued operations	--	0.24	(0.26)	(0.21)	0.20
Net earnings	$ 1.85	$ 4.55	$ 3.58	$ 4.91	$ 6.81
Statement of Financial Position Data					
Current assets	$ 1,735	$ 1,423	$ 2,293	$ 2,422	$ 1,924
Net properties	3,110	3,198	2,846	3,069	3,162
Total assets	5,515	5,281	6,009	6,132	5,737
Current liabilities	800	832	1,122	1,059	1,051
Long-term borrowings	1,604	1,442	1,535	1,589	1,621
Total liabilities	4,002	3,728	3,927	4,103	4,125
Total stockholders' equity	1,513	1,553	2,082	2,029	1,612
Dividends declared per share	1.76	1.76	1.76	1.76	1.76

In fourth quarter 2009, the Company announced its decision to discontinue the Beaumont, Texas industrial gasification project. This decision was based on a number of factors, including high capital costs, the current and projected reduced spread between natural gas and oil and petroleum coke prices, and continued uncertainty regarding

U.S. energy and environmental public policy. For more information regarding the impact of this impairment on financial results, refer to the segment discussions of Part II, Item 7 – "Management's Discussion and Analysis of Financial Condition and Results of Operations" and Part II, Item 8 – "Notes to the Audited Consolidated Financial Statements" – Note 2, "Asset Impairments and Restructuring Charges, Net " of this Annual Report.

In first quarter 2008, the Company completed the sale of its polyethylene terephthalate ("PET") polymers and purified terephthalic acid ("PTA") manufacturing facilities in Rotterdam, the Netherlands and the PET manufacturing facility in Workington, United Kingdom and related businesses. Results from, charges related to, and gains and losses from disposal of the San Roque, Spain, the Netherlands, and the United Kingdom assets and businesses are presented as discontinued operations. For more information regarding the impact of these divestitures on financial results, refer to the segment discussions of Part II, Item 7 – "Management's Discussion and Analysis of Financial Condition and Results of Operations" and Part II, Item 8 – "Notes to the Audited Consolidated Financial Statements" – Note 16, "Divestitures" and Note 17, "Discontinued Operations" of this Annual Report.

In second quarter 2007, the Company completed the sale of its San Roque, Spain PET manufacturing facility. During fourth quarter 2007, the Company sold its PET polymers production facilities in Cosoleacaque, Mexico and Zarate, Argentina and the related businesses and entered into definitive agreements to sell its PET polymers production facilities in Rotterdam, the Netherlands and Workington, United Kingdom and the related businesses. For more information regarding the impact of these divestitures on financial results, refer to the segment discussions of Part II, Item 7 – "Management's Discussion and Analysis of Financial Condition and Results of Operations" and Part II, Item 8 – "Notes to the Audited Consolidated Financial Statements" – Note 2, "Discontinued Operations and Assets Held for Sale" and Note 17, "Divestitures" of the 2008 Annual Report on Form 10-K.

In fourth quarter 2006, the Company completed the sale of its Batesville, Arkansas manufacturing facility and related assets and specialty organic chemicals product lines in the Performance Chemicals and Intermediates ("PCI") segment and the sale of its polyethylene and EpoleneTM polymer businesses and related assets located at the Longview, Texas site and the Company's ethylene pipeline. The polyethylene assets and product lines were in the Performance Polymers segment, while the EpoleneTM assets and product lines were in the Coatings, Adhesives, Specialty Polymers and Inks ("CASPI") segment. For more information regarding the impact of these divestitures on financial results, refer to the segment discussions of Part II, Item 7 – "Management's Discussion and Analysis of Financial Reporting and Results of Operations" and Part II, Item 8 – "Notes to the Audited Consolidated Financial Statements" – Note 17, "Divestitures" of the 2008 Annual Report on Form 10-K.

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

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

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

CRITICAL ACCOUNTING ESTIMATES

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

Allowances for Doubtful Accounts

The Company maintains allowances for doubtful accounts for estimated losses resulting from the inability of its customers to make required payments. The Company believes, based on historical results, the likelihood of actual write-offs having a material impact on financial results is low. However, if one of the Company's key customers was to file for bankruptcy, or otherwise be unable to make its required payments, or there was a significant continued slow-down in the economy, the Company could increase its allowances. This could result in a material charge to earnings. The Company's allowances were $10 million and $8 million at December 31, 2009 and 2008, respectively.

Impairment of Long-Lived Assets

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

The Company conducts its annual testing of goodwill and indefinite-lived intangible assets in third quarter of each year, unless events warrant more frequent testing. Reporting units are identified for the purpose of assessing potential impairments of goodwill. The carrying value of indefinite-lived intangibles is considered impaired when their fair value, as established by appraisal or based on undiscounted future cash flows of certain related products, is less than their carrying value. If the fair value of a reporting unit is less than the carrying value of goodwill, additional steps, including an allocation of the estimated fair value to the assets and liabilities of the reporting unit, would be necessary to determine the amount, if any, of goodwill impairment. Goodwill and indefinite-lived intangibles primarily consist of goodwill in the Coatings, Adhesives, Specialty Polymers and Inks ("CASPI") segment. The Company also had recorded goodwill and other intangibles associated with the Beaumont, Texas industrial gasification project. In fourth quarter 2009, the Company announced the discontinuance of the Beaumont, Texas industrial gasification project, which resulted in an impairment of the Beaumont industrial gasification project goodwill and other intangible assets.

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

adjusted, resulting in a charge to earnings. The Company recognized fixed (tangible) asset impairment costs of $133 million and goodwill and definite-lived intangible asset impairment costs of $46 million in results from continuing operations during 2009, related to the discontinuance of the Beaumont, Texas industrial gasification project. The Company recognized no fixed (tangible) asset impairment costs and no definite-lived intangible asset impairment costs in results from continuing operations during 2008.

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

Environmental Costs

The Company accrues environmental remediation costs when it is probable that the Company has incurred a liability at a contaminated site and the amount can be reasonably estimated. When a single amount cannot be reasonably estimated but the cost can be estimated within a range, the Company accrues the minimum amount. This undiscounted accrued amount reflects the Company's assumptions about remediation requirements at the contaminated site, the nature of the remedy, the outcome of discussions with regulatory agencies and other potentially responsible parties at multi-party sites, and the number and financial viability of other potentially responsible parties. Changes in the estimates on which the accruals are based, unanticipated government enforcement action, or changes in health, safety, environmental, and chemical control regulations and testing requirements could result in higher or lower costs. Estimated future environmental expenditures for remediation costs range from the minimum or best estimate of $10 million to the maximum of $20 million at December 31, 2009.

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

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

The Company's reserve, including the above remediation, was $42 million at December 31, 2009 and $41 million at December 31, 2008, representing the minimum or best estimate for remediation costs and the best estimate of the amount accrued to date over the regulated assets' estimated useful lives for asset retirement obligation costs.

Pension and Other Post-employment Benefits

The Company maintains defined benefit pension plans that provide eligible employees with retirement benefits. Additionally, Eastman provides life insurance and health care and dental benefits for eligible retirees and health care benefits for retirees' eligible survivors. The costs and obligations related to these benefits reflect the Company's assumptions related to general economic conditions (particularly interest rates) and expected return on plan assets. For the U.S. plans, at December 31, 2009, the Company assumed a discount rate of 5.72 percent on its defined benefit pension plans, 5.79 percent on its other post-employment benefit plan and an expected return on assets of 9 percent. The cost of providing plan benefits also depends on demographic assumptions including retirements, mortality, turnover, and plan participation.

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

The Company expects its 2010 pension expense to be slightly higher than 2009. The December 31, 2009 projected benefit obligation and 2010 expense are affected by year-end 2009 assumptions. The sensitivities below are specific to the time periods noted. They also may not be additive, so the impact of changing multiple factors simultaneously cannot be calculated by combining the individual sensitivities shown. The following table illustrates the sensitivity to changes in the Company's long-term assumptions in the expected return on assets and assumed discount rate for the U.S. pension plans and other postretirement welfare plans:

Change in Assumption	Impact on 2010 Pre-tax U.S. Benefits Expense	Impact on December 31, 2009 Projected Benefit Obligation for U.S. Pension Plans	Impact on December 31, 2009 Benefit Obligation for Other U.S. Postretirement Plans
25 basis point decrease in discount rate	+$5 Million	+$40 Million	+$23 Million
25 basis point increase in discount rate	-$5 Million	-$38 Million	-$22 Million
25 basis point decrease in expected return on assets	+$3 Million	No Impact	N/A
25 basis point increase in expected return on assets	-$3 Million	No Impact	N/A

The expected return on assets and assumed discount rate used to calculate the Company's pension and other post-employment benefit obligations are established each December 31. The expected return on assets is based upon the long-term expected returns in the markets in which the pension trust invests its funds, primarily the domestic, international, and private equity markets. Historically, over a ten year period, excluding 2008 which is considered an anomaly due to the global recession, the Company's average achieved actual return has been equal to or greater than the expected return on assets. The assumed discount rate is based upon a portfolio of high-grade corporate bonds, which are used to develop a yield curve. This yield curve is applied to the expected durations of the pension and post-employment benefit obligations. As future benefits under the U.S. benefit plan have been fixed at a certain contribution amount, changes in the health care cost trend assumptions do not have a material impact on the results of operations.

The Company uses the market related valuation method to determine the value of plan assets, which recognizes the change of the fair value of the plan assets over five years. If actual experience differs from these long-term

assumptions, the difference is recorded as an unrecognized actuarial gain (loss) and then amortized into earnings over a period of time based on the average future service period, which may cause the expense related to providing these benefits to increase or decrease. The charges applied to earnings in 2009, 2008, and 2007 due to the amortization of these unrecognized actuarial losses, largely due to actual experience versus assumptions of discount rates, were $45 million, $37 million, and $47 million, respectively.

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

The Company does not anticipate that a change in pension and other post-employment obligations caused by a change in the assumed discount rate during 2010 will impact the cash contributions to be made to the pension plans during 2010. However, an after-tax charge or credit will be recorded directly to accumulated other comprehensive income (loss), a component of stockholders' equity, as of December 31, 2010 for the impact on the pension's projected benefit obligation of the change in interest rates, if any. While the amount of the change in these obligations does not correspond directly to cash funding requirements, it is an indication of the amount the Company will be required to contribute to the plans in future years. The amount and timing of such cash contributions is dependent upon interest rates, actual returns on plan assets, retirement, attrition rates of employees, and other factors. For further information regarding pension and other post-employment obligations, see Note 10, "Retirement Plans", to the Company's consolidated financial statements in Part II, Item 8 of this Annual Report.

Litigation and Contingent Liabilities

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

Income Taxes

The Company records deferred tax assets and liabilities based on temporary differences between the financial reporting and tax bases of assets and liabilities, applying enacted tax rates expected to be in effect for the year in which the differences are expected to reverse. The ability to realize the deferred tax assets is evaluated through the forecasting of taxable income using historical and projected future operating results, the reversal of existing temporary differences, and the availability of tax planning strategies. Valuation allowances are recorded to reduce deferred tax assets when it is more likely than not that a tax benefit will not be realized. In the event that the actual outcome from future tax consequences differs from our estimates and assumptions, the resulting change to the provision for income taxes could have a material adverse impact on the consolidated results of operations and statement of financial position. As of December 31, 2009, a valuation allowance of $88 million has been provided against the deferred tax assets.

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

STRATEGIC ACTIONS AND RELATED PRESENTATION OF NON-GAAP FINANCIAL MEASURES

During 2009, the Company recognized $200 million in asset impairment and restructuring charges, primarily consisting of $179 million in asset impairments related to the Company's previously announced discontinuance of its Beaumont, Texas industrial gasification project and $23 million, net, for severance resulting from a reduction in force. The Company's decision to discontinue the industrial gasification project was due to a number of factors,

including high capital costs, the current and projected reduced spread between natural gas and oil and petroleum coke prices, and continued uncertainty regarding U.S. energy and environmental public policy.

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

In 2008, the Company sold certain mineral rights at an operating manufacturing site, recognizing $16 million of other operating income.

During 2007 and 2008, the Company took certain strategic actions in its Performance Polymers segment to address its underperforming polyethylene terephthalate ("PET") manufacturing facilities outside the United States. In second quarter 2007, the Company completed the sale of its PET manufacturing facility in Spain and in first quarter 2008, the Company completed the sale of its PET polymers and purified terephthalic acid ("PTA") manufacturing facilities in the Netherlands and the PET manufacturing facility in the United Kingdom and related businesses. Results from, charges related to, and gains and losses from disposal of the Spain, the Netherlands, and the United Kingdom assets and businesses are presented as discontinued operations. In fourth quarter 2007, the Company completed the sale of its Mexico and Argentina manufacturing facilities. As part of this divestiture, the Company entered into transition supply agreements for polymer intermediates from which sales revenue and operating results are included in the Performance Polymers segment results in 2008.

In fourth quarter 2006, the Company sold its polyethylene ("PE") and EpoleneTM polymer businesses and related assets of the Performance Polymers and CASPI segments. As part of the PE divestiture, the Company entered into a transition supply agreement for contract ethylene sales, from which sales revenue and operating earnings are included in the Performance Chemicals and Intermediates ("PCI") segment results in 2009, 2008, and 2007.

Also in fourth quarter 2006, the Company made strategic decisions relating to the scheduled shutdown of cracking units in Longview, Texas and a planned shutdown of higher cost PET assets in Columbia, South Carolina. Accelerated depreciation costs resulting from these decisions were $9 million and $49 million in 2008 and 2007, respectively. For more information on accelerated depreciation costs, see "Gross Profit" in the "Results of Operations" section of this Management's Discussion and Analysis of Financial Condition and Results of Operations.

This Management's Discussion and Analysis of Financial Condition and Results of Operations includes the following non-GAAP financial measures and accompanying reconciliations to the most directly comparable GAAP financial measures. The non-GAAP financial measures used by the Company may not be comparable to similarly titled measures used by other companies and should not be considered in isolation or as a substitute for measures of performance or liquidity prepared in accordance with GAAP.

- Company sales and segment sales and results from continuing operations excluding sales revenue and results from continuing operations from sales in Latin America of PET products manufactured at the divested Mexico and Argentina PET manufacturing sites;
- Company and segment sales excluding contract ethylene sales under a transition agreement related to the divestiture of the PE product lines;
- Company and segment sales excluding contract polymer intermediates sales under a transition supply agreement related to the divestiture of the PET manufacturing facilities and related businesses in Mexico and Argentina;
- Company and segment gross profit, operating earnings, earnings from continuing operations, and diluted earnings per share excluding accelerated depreciation costs, asset impairments and restructuring charges, and other operating income; and
- Company earnings from continuing operations and diluted earnings per share excluding net deferred tax benefits related to the previous divestiture of businesses.

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

Eastman's management believes that contract ethylene sales under the transition agreement related to the divestiture of the PE product lines, the contract polymer intermediates sales under the transition supply agreement related to the divestiture of the PET manufacturing facilities and related businesses in Mexico and Argentina, and the other operating income from the sale of mineral rights do not reflect the continuing and expected future business of the PCI and Performance Polymers segments or of the Company. In addition, for evaluation and analysis of ongoing business results and the impact on the Company and segments of strategic decisions and actions to reduce costs and to improve the profitability of the Company, management believes that Company and segment earnings from continuing operations should be considered both with and without accelerated depreciation costs, asset impairments and restructuring charges, and deferred tax benefits related to the previous divestiture of businesses, and that Company and segment sales and results from continuing operations should be considered both with and without sales revenue and results from continuing operations from sales in Latin America of PET products manufactured at the divested Mexico and Argentina manufacturing facilities. Management believes that investors can better evaluate and analyze historical and future business trends if they also consider the reported Company and segment results, respectively, without the identified items. Management utilizes Company and segment results including and excluding the identified items in the measures it uses to evaluate business performance and in determining certain performance-based compensation. These measures, excluding the identified items, are not recognized in accordance with GAAP and should not be viewed as alternatives to the GAAP measures of performance.

2009 OVERVIEW

The Company generated sales revenue of $5.0 billion and $6.7 billion for 2009 and 2008, respectively. Excluding the results of contract ethylene sales and contract polymer intermediates sales, sales revenue decreased by 20 percent. The sales revenue decrease was due to lower selling prices in response to lower raw material and energy costs and lower sales volume primarily attributed to weakened demand due to the global recession.

Operating earnings were $317 million in 2009 compared to $519 million in 2008. Excluding accelerated depreciation costs, asset impairments and restructuring charges, net, and other operating income, operating earnings were $517 million in 2009 compared with $558 million in 2008. Eastman's reduced earnings reflect continued weakness in demand for the Company's products that caused lower sales volume and continued low capacity utilization which resulted in higher unit costs. This weakness in demand, which is attributed to the global recession, moderated throughout 2009 resulting in stronger sales volume and operating earnings in second half of the year. The decline was partially offset by lower raw material and energy costs more than offsetting lower selling prices. Operating earnings also benefited from cost reduction actions which positively impacted results throughout the year.

During 2009, operating earnings were negatively impacted by $200 million in asset impairment and restructuring charges, net, primarily consisting of $179 million in asset impairments related to the Company's discontinuance of its Beaumont, Texas industrial gasification project and $23 million, net, for severance resulting from a reduction in force.

Primarily as a result of strategic actions related to the Performance Polymers and PCI segments, as well as a corporate severance program, operating earnings in 2008 were negatively impacted by $46 million in asset impairments and restructuring charges and $9 million of accelerated depreciation costs, and were positively impacted by $16 million in other operating income.

Earnings from continuing operations were $136 million in 2009 compared to $328 million in 2008. Excluding accelerated depreciation costs, asset impairments and restructuring charges, net, and net deferred tax benefits, earnings

from continuing operations were $266 million and $342 million, respectively. Earnings from continuing operations were $1.85 per diluted share in 2009 compared to $4.31 per diluted share in 2008. Excluding accelerated depreciation costs, asset impairments and restructuring charges, net, and net deferred tax benefits, earnings were $3.63 per diluted share and $4.50 per diluted share, respectively.

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

The Company generated $758 million in cash from operating activities during 2009 compared to $653 million generated by operating activities in 2008. The increase was primarily due to cash received from a change in tax accounting method, as well as a reduction in working capital in 2009 as compared to an increase in working capital in 2008. In 2009, the Company received proceeds from a public debt offering of $248 million, contributed $181 million to the U.S. defined benefit pension plan, and repaid $88 million of its euro credit facility and $13 million of short term borrowings. In 2008, the Company received proceeds from sale of assets of $337 million, repurchased shares totaling $501 million, and repaid $175 million of borrowings.

The Company continued its growth initiatives in 2009. In the Fibers segment, construction of the Korean acetate tow facility began in first quarter 2009, with the facility expected to be operational in first quarter 2010. In the Specialty Plastics segment, the introduction of its new Eastman TritanTM copolyester progressed with the monomer manufacturing facility and its first TritanTM copolyester polymer manufacturing facility in Kingsport, Tennessee which were both completed in 2009 and are expected to be operational in early 2010. In the CASPI segment, the 30 percent expansion of the Company's hydrogenated hydrocarbon resins manufacturing capacity in Middelburg, the Netherlands which was completed in 2009 with expected production in 2010 to meet growing demand for specialty hydrocarbon resins.

RESULTS OF OPERATIONS

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

SUMMARY OF CONSOLIDATED RESULTS - 2009 COMPARED WITH 2008

(Dollars in millions)	2009	2008	Change	Volume Effect	Price Effect	Product Mix Effect	Exchange Rate Effect
Sales	$ 5,047	$ 6,726	(25) %	(13) %	(12) %	-- %	-- %
Sales – contract polymer intermediates sales (1)	--	138					
Sales - contract ethylene sales (2)	28	314					
Sales – excluding listed items	$ 5,019	$ 6,274	(20) %	(7) %	(12) %	(1) %	-- %

(1) Included in 2008 sales revenue are contract polymer intermediates sales under the transition supply agreement related to the divestiture of the PET manufacturing facilities and related businesses in Mexico and Argentina in fourth quarter 2007.

(2)

Included in 2009 and 2008 sales revenue are contract ethylene sales under the transition supply agreement related to the divestiture of the PE businesses.

Sales revenue for 2009 compared to 2008 decreased $1,679 million. Excluding contract ethylene sales and contract polymer intermediates sales, sales revenue decreased 20 percent due to lower selling prices in response to lower raw material and energy costs, particularly in the PCI and Performance Polymers segments, and lower sales volume primarily attributed to weakened demand due to the global recession.

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

(Dollars in millions)	2009	2008	Change
Gross Profit	$ 1,053	$ 1,126	(6) %
As a percentage of sales	21 %	17 %	
Accelerated depreciation included in cost of sales	--	9	
Gross Profit excluding accelerated depreciation costs	1,053	1,135	(7) %
As a percentage of sales	21 %	17 %	

Gross profit for 2009 decreased compared with 2008 in the PCI, Performance Polymers, and Specialty Plastics segments due to continued weakness in demand for the Company's products attributed to the global recession. This weak demand caused lower sales volume and lower capacity utilization which, resulted in higher unit costs. In addition, the Performance Polymers segment was negatively impacted by operational challenges with the South Carolina PET manufacturing facility. Gross profit as a percentage of sales increased due to improved performance in the Fibers and CASPI segments. The Fibers segment benefited from higher selling prices, while the CASPI segment had lower raw material and energy costs more than offsetting lower selling prices. The Company also benefited from cost reduction actions in 2009. In addition, 2009 results included approximately $20 million in costs related to the reconfiguration of the Longview, Texas facility, which impacted the PCI and CASPI segments. Gross profit included accelerated depreciation costs of $9 million in 2008 resulting from the previously reported shutdown of the cracking units in Longview, Texas and higher cost PET polymer assets in Columbia, South Carolina. The Company's 2009 raw material and energy costs decreased by approximately $900 million compared with 2008.

(Dollars in millions)	2009	2008	Change
Selling, General and Administrative Expenses ("SG&A")	$ 399	$ 419	(5) %
Research and Development Expenses ("R&D")	137	158	(13) %
	$ 536	$ 577	(7) %
As a percentage of sales	11 %	9 %	

SG&A expenses decreased for 2009 compared to 2008 primarily due to lower discretionary spending and compensation expense resulting from cost reduction actions partially offset by increased compensation expense linked to the Company's higher stock price.

R&D expenses decreased for 2009 compared to 2008 primarily due to lower R&D expenses for corporate growth initiatives, including the industrial gasification project in Beaumont, Texas and the commercialized Eastman TritanTM copolyester.

Asset Impairments and Restructuring Charges, Net

Asset impairments and restructuring charges, net, totaled $200 million and $46 million in 2009 and 2008, respectively. Asset impairments and restructuring charges in 2009 consists primarily of $179 million in asset

impairments related to the Company's previously announced discontinuance of its Beaumont, Texas industrial gasification project and $23 million, net for severance resulting from a reduction in force. Asset impairments and restructuring charges in 2008 were primarily for restructuring at the South Carolina facility in the Performance Polymers segment, severance and pension costs from the decision to close a previously impaired site in the United Kingdom in the PCI segment, and severance costs resulting from a corporate severance program. For more information regarding asset impairments and restructuring charges, primarily related to recent strategic decisions and actions, see the Performance Polymers and PCI segments discussion and Note 2, "Asset Impairments and Restructuring Charges, Net", to the Company's consolidated financial statements in Part II, Item 8 of this Annual Report.

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

Other Operating Income, Net

Other operating income, net for 2008 reflected proceeds of $16 million from the sale of certain mineral rights at an operating manufacturing site.

Operating Earnings

(Dollars in millions)	2009	2008	Change
Operating earnings	$ 317	$ 519	(39) %
Accelerated depreciation included in cost of sales	--	9	
Asset impairments and restructuring charges, net	200	46	
Other operating income, net	--	(16)	
Operating earnings excluding accelerated depreciation costs, asset impairment and restructuring charges, net, and other operating income, net	$ 517	$ 558	(7) %

Net Interest Expense

(Dollars in millions)	2009	2008	Change
Gross interest costs	$ 99	$ 106	
Less: capitalized interest	14	12	
Interest expense	85	94	(10) %
Interest income	7	24	
Net interest expense	$ 78	$ 70	11 %

Net interest expense increased $8 million in 2009 compared to 2008. Gross interest costs for 2009 compared to 2008 were lower due to lower average borrowings and lower average interest rates. Interest income in 2009 compared to 2008 was lower due to lower average interest rates and lower average cash balances.

For 2010, the Company expects net interest expense to increase compared with 2009 primarily due to lower capitalized interest and higher borrowings.

Other Charges (Income), Net

(Dollars in millions)	2009	2008
Foreign exchange transactions losses	$ 5	$ 17
Investments losses, net	5	6
Other, net	3	(3)
Other charges (income), net	$ 13	$ 20

Included in other charges (income), net are gains or losses on foreign exchange transactions, results from equity investments, gains or losses on business venture investments, other non-operating income or charges related to

Holston Defense Corporation ("HDC"), gains from the sale of non-operating assets, certain litigation costs, fees on securitized receivables, other non-operating income, and other miscellaneous items.

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

Investments losses, net include gains of $4 million in both 2009 and 2008 resulting from a favorable decision in 2006 of the U.S. Department of the Army to reimburse post-employment benefits being provided to retirees of HDC, a wholly owned subsidiary. This gain reflected a portion of the unrecognized gain resulting from the reimbursement decision that will be amortized into earnings over future periods. For additional information, see Note 19, "Other Charges (Income), Net", to the Company's consolidated financial statements in Part II, Item 8 of this Annual Report.

Provision for Income Taxes

(Dollars in millions)	2009	2008	Change
Provision for income taxes	$ 90	$ 101	(11) %
Effective tax rate	39 %	24 %	

The 2009 effective tax rate reflects the Company's tax rate on reported earnings from continuing operations before income tax, excluding discrete items, of 37 percent. The 2009 effective tax rate reflects a $11 million tax charge associated with the recapture of gasification investment tax credits, a $7 million tax charge associated with a change in accounting method for tax purposes to accelerate timing of deductions for manufacturing repairs expense and a $5 million tax benefit from the reversal of tax reserves due to the expiration of the relevant statute of limitations.

The 2008 effective tax rate reflects the Company's tax rate on reported earnings from continuing operations before income tax, excluding discrete items, of 27 percent. The 2008 effective tax rate was impacted by a $16 million benefit resulting from a gasification investment tax credit of $11 million and a research and development credit of $5 million, a $14 million benefit from state income tax credits (net of federal tax effect), and a $6 million benefit from the settlement of a non-U.S. income tax audit.

The Company expects its effective tax rate in 2010 will be approximately 33 percent.

Earnings from Continuing Operations and Diluted Earnings per Share

	2009		2008	
(Dollars in millions, except diluted EPS)	$	EPS	$	EPS
Earnings from continuing operations	$ 136	$ 1.85	$ 328	$ 4.31
Accelerated depreciation included in cost of sales, net of tax	--	--	6	0.08
Asset impairments and restructuring charges, net of tax	130	1.78	32	0.42
Other operating income, net of tax	--	--	(10)	(0.13)
Net deferred tax benefits related to the previous divestiture of businesses	--	--	(14)	(0.18)
Earnings from continuing operations excluding accelerated depreciation costs, net of tax, asset impairments and restructuring charges, net of tax, other operating income, net of tax, and net deferred tax benefits related to the	$ 266	$ 3.63	$ 342	$ 4.50

previous divesture of businesses

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

Net Earnings and Diluted Earnings per Share

(Dollars in millions, except diluted EPS)	2009		2008	
	$	EPS	$	EPS
Earnings from continuing operations	$136	$1.85	$328	$4.31
Gain from disposal of discontinued operations, net of tax	--	--	18	0.24
Net earnings	$136	$1.85	$346	$4.55