EASTMAN CHEMICAL CO
Form 10-Q
May 07, 2018
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549
FORM 10-Q
(Mark
One)

[X]	QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
	For the quarterly period ended March 31, 2018
	OR
[ ]	TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
	For the transition period from ______________ to ______________

Commission file number 1-12626

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

Delaware	62-1539359
(State or other jurisdiction of incorporation or organization)	(I.R.S. employer identification no.)

200 South Wilcox Drive	
Kingsport, Tennessee	37662
(Address of principal executive offices)	(Zip Code)

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

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

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

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

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

Smaller reporting company	
Emerging growth company	[ ]

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

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

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

Class	Number of Shares Outstanding at March 31, 2018
Common Stock, par value $0.01 per share	142,635,082

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FORWARD-LOOKING STATEMENTS

Certain statements made or incorporated by reference in this Quarterly Report are "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act (Section 27A of the Securities Act of 1933, as amended and Section 21E of the Securities and Exchange Act of 1934, as amended). Forward-looking statements are all statements, other than statements of historical fact, that may be made by Eastman Chemical Company ("Eastman" or the "Company") from time to time. In some cases, you can identify forward-looking statements by terminology such as "anticipates," "believes," "estimates," "expects," "intends," "may," "plans," "projects," "will," "would," and similar expressions or expressions of the negative of these terms. Forward-looking statements may relate to, among other things, such matters as planned and expected capacity increases and utilization; anticipated capital spending; expected depreciation and amortization; environmental matters; exposure to, and effects of hedging of, raw material and energy prices and costs; foreign currencies and interest rates; disruption or interruption of operations and of raw material or energy supply; global and regional economic, political, and business conditions; competition; growth opportunities; supply and demand, volume, price, cost, margin and sales; pending and future legal proceedings; earnings, cash flow, dividends, stock repurchases and other expected financial results, events, and conditions; expectations, strategies, and plans for individual assets and products, businesses, and operating segments, as well as for the whole of Eastman; cash requirements and uses of available cash; financing plans and activities; pension expenses and funding; credit ratings; anticipated and other future restructuring, acquisition, divestiture, and consolidation activities; cost reduction and control efforts and targets; the timing and costs of, and benefits from, the integration of, and expected business and financial performance of, acquired businesses; strategic and technology and product innovation initiatives and development, production, commercialization and acceptance of new products, services and technologies and related costs; asset, business, and product portfolio changes; and expected tax rates and net interest costs.

Forward-looking statements are based upon certain underlying assumptions as of the date such statements were made. Such assumptions are based upon internal estimates and other analyses of current market conditions and trends, management expectations, plans, and strategies, economic conditions, and other factors. Forward-looking statements and the assumptions underlying them are necessarily subject to risks and uncertainties inherent in projecting future conditions and results. Actual results could differ materially from expectations expressed in the forward-looking statements if one or more of the underlying assumptions and expectations proves to be inaccurate or is unrealized. The most significant known factors, risks, and uncertainties that could cause actual results to differ materially from those in the forward-looking statements are identified and discussed under "Management's Discussion and Analysis of Financial Condition and Results of Operations - Risk Factors" in Part I, Item 2 of this Quarterly Report. Other factors, risks or uncertainties of which management is not aware, or presently deems immaterial, could also cause actual results to differ materially from those in the forward-looking statements.

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

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PART I. FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

UNAUDITED CONSOLIDATED STATEMENTS OF EARNINGS,
COMPREHENSIVE INCOME AND RETAINED EARNINGS

	First Quarter	
(Dollars in millions, except per share amounts)	2018	2017
Sales	$2,607	$2,303
Cost of sales	2,026	1,698
Gross profit	581	605
Selling, general and administrative expenses	190	179
Research and development expenses	56	57
Asset impairments and restructuring charges, net	2	—
Other components of post-employment (benefit) cost, net	(30)	(28)
Other (income) charges, net	(46)	(4)
Earnings before interest and taxes	409	401
Net interest expense	59	60
Earnings before income taxes	350	341
Provision for income taxes	60	62
Net earnings	290	279
Less: Net earnings attributable to noncontrolling interest	—	1
Net earnings attributable to Eastman	$290	$278
Basic earnings per share attributable to Eastman	$2.03	$1.90
Diluted earnings per share attributable to Eastman	$2.00	$1.89

Comprehensive Income		
Net earnings including noncontrolling interest	$290	$279
Other comprehensive income (loss), net of tax:		
Change in cumulative translation adjustment	27	7
Defined benefit pension and other postretirement benefit plans:		
Amortization of unrecognized prior service credits included in net periodic (credit) cost	(7)	(7)
Derivatives and hedging:		
Unrealized gain (loss) during period	(23)	(21)
Reclassification adjustment for (gains) losses included in net income, net	—	(4)
Total other comprehensive income (loss), net of tax	(3)	(25)
Comprehensive income including noncontrolling interest	287	254
Less: Comprehensive income attributable to noncontrolling interest	—	1
Comprehensive income attributable to Eastman	$287	$253
Retained Earnings		
Retained earnings at beginning of period	$6,802	$5,721
Cumulative effect adjustment resulting from adoption of new accounting standards	16	—
Net earnings attributable to Eastman	290	278
Cash dividends declared	(82)	(74)
Retained earnings at end of period	$7,026	$5,925

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

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UNAUDITED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(Dollars in millions, except per share amounts)	March 31, 2018	December 31, 2017
Assets		
Current assets		
Cash and cash equivalents	$194	$ 191
Trade receivables, net of allowance for doubtful accounts	1,430	1,026
Miscellaneous receivables	319	360
Inventories	1,476	1,509
Other current assets	64	57
Total current assets	3,483	3,143
Properties		
Properties and equipment at cost	12,520	12,370
Less: Accumulated depreciation	6,888	6,763
Net properties	5,632	5,607
Goodwill	4,540	4,527
Intangible assets, net of accumulated amortization	2,349	2,373
Other noncurrent assets	362	349
Total assets	$16,366	$ 15,999
Liabilities and Stockholders' Equity		
Current liabilities		
Payables and other current liabilities	$1,440	$ 1,589
Borrowings due within one year	589	393
Total current liabilities	2,029	1,982
Long-term borrowings	6,311	6,147
Deferred income tax liabilities	914	893
Post-employment obligations	951	963
Other long-term liabilities	541	534
Total liabilities	10,746	10,519
Stockholders' equity		
Common stock ($0.01 par value – 350,000,000 shares authorized; shares issued – 219,032,630 and 218,369,992 for 2018 and 2017, respectively)	2	2
Additional paid-in capital	2,004	1,983
Retained earnings	7,026	6,802
Accumulated other comprehensive income (loss)	(212)	(209)
	8,820	8,578
Less: Treasury stock at cost (76,448,346 shares for 2018 and 75,454,111 shares for 2017)	3,275	3,175
Total Eastman stockholders' equity	5,545	5,403
Noncontrolling interest	75	77
Total equity	5,620	5,480
Total liabilities and stockholders' equity	$16,366	$ 15,999

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

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UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

	First Three Months	
(Dollars in millions)	2018	2017
Operating activities		
Net earnings	$290	$279
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	152	145
Gain from property insurance	(50)	—
Provision for deferred income taxes	11	31
Changes in operating assets and liabilities, net of effect of acquisitions and divestitures:		
(Increase) decrease in trade receivables	(223)	(149)
(Increase) decrease in inventories	(80)	(82)
Increase (decrease) in trade payables	8	(26)
Pension and other postretirement contributions (in excess of) less than expenses	(36)	(36)
Variable compensation (in excess of) less than expenses	(77)	(84)
Other items, net	(30)	(26)
Net cash (used in) provided by operating activities	(35)	52
Investing activities		
Additions to properties and equipment	(128)	(133)
Proceeds from property insurance	50	—
Proceeds from sale of assets	—	1
Acquisitions, net of cash acquired	—	(4)
Net cash used in investing activities	(78)	(136)
Financing activities		
Net increase (decrease) in commercial paper and other borrowings	199	—
Proceeds from borrowings	275	250
Repayment of borrowings	(175)	—
Dividends paid to stockholders	(80)	(75)
Treasury stock purchases	(100)	(75)
Proceeds from stock option exercises and other items, net	(3)	2
Net cash provided by financing activities	116	102
Effect of exchange rate changes on cash and cash equivalents	—	(2)
Net change in cash and cash equivalents	3	16
Cash and cash equivalents at beginning of period	191	181
Cash and cash equivalents at end of period	$194	$197

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

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NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

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NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

1. SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared by Eastman Chemical Company ("Eastman" or the "Company") in accordance and consistent with the accounting policies stated in the Company's 2017 Annual Report on Form 10-K, and should be read in conjunction with the consolidated financial statements in Part II, Item 8 of the Company's 2017 Annual Report on Form 10-K, with the exception of the items noted below. The December 31, 2017 financial position data included herein was derived from the audited consolidated financial statements included in the 2017 Annual Report on Form 10-K but does not include all disclosures required by accounting principles generally accepted in the United States ("GAAP").

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

Certain prior period data has been reclassified in the consolidated financial statements and accompanying footnotes to conform to current period presentation. As of January 1, 2018:

- Eastman's primary measure of operating performance for all periods presented is earnings before interest and taxes ("EBIT") on a consolidated and segment basis. Previously, the Company's primary measure of operating performance was operating earnings.
- As discussed below, the new accounting standard for the presentation of net periodic benefit costs requires the Company to present non-service cost components of net periodic benefit costs (interest cost, expected return on plan assets, curtailment gains or losses, amortization of prior service costs or credits, and mark-to-market gains or losses) separately from service cost. These non-service cost components were reclassified from "Cost of sales", "Selling, general and administrative expenses", and "Research and development expenses" line items and are now included in a new line item, "Other components of post-employment (benefit) cost, net" on the Unaudited Consolidated Statements of Earnings, Comprehensive Income and Retained Earnings for all periods presented. This reclassification does not change prior period EBIT and accordingly management does not consider this change to have a material impact on the Company's financial statements and related disclosures.

Recently Adopted Accounting Standards

Accounting Standards Update ("ASU") 2014-09 Revenue Recognition (Accounting Standards Codification "ASC" 606): On January 1, 2018, Eastman adopted this standard under the modified retrospective method, such that revenue for all periods prior to January 1, 2018 continue to be reported under the previous standard, which resulted in an increase to retained earnings of $53 million after tax for products shipped but not delivered as of December 31, 2017.

Under the new standard, the Company recognizes revenue when performance obligations of the sale are satisfied. The majority of the Company's terms of sale have a single performance obligation to transfer products. Accordingly, the Company recognizes revenue when control has been transferred to the customer, generally at the time of shipment of products. Under the previous revenue recognition accounting standard, the Company recognized revenue upon transfer of title and risk of loss, generally upon the delivery of goods.

Management does not expect that changes in its accounting required by this new standard will materially impact the Company's financial statements and related disclosures when comparing 2018 under the new revenue standard to previous years under the prior standard. However, the difference in timing of revenue recognition under the current and former accounting standards is expected to have some impact on seasonal revenue and EBIT trends during 2018 compared to previous years. For further information, see Note 18, "Revenue Recognition".

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NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

ASU 2016-01 Financial Instruments: On January 1, 2018, Eastman adopted this standard relating to the recognition and measurement of financial assets and financial liabilities. This standard requires equity investments (except equity method and consolidated investments) to be measured at fair value with changes in fair value recognized in net income. Management has concluded that changes in its accounting required by the new standard will not materially impact the Company's financial statements and related disclosures. In February 2018, the Financial Accounting Standards Board ("FASB") issued ASU 2018-03 as an update to the standard described above which is effective for the Company July 1, 2018. Management does not expect that changes in its accounting required by the update will materially impact the Company's financial statements and related disclosures.

ASU 2016-16 Income Taxes - Intra-Entity Transfers: On January 1, 2018, Eastman adopted this standard under the modified retrospective method resulting in a beginning retained earnings decrease of $39 million. Under this standard, the Company is required to recognize the income tax consequence of an intra-entity transfer of an asset other than inventory when the transfer occurs.

ASU 2017-05 Other Income - Gains and Losses from Derecognition of Nonfinancial Assets: On January 1, 2018, Eastman adopted this standard in conjunction with the revenue recognition standard mentioned above. This standard clarifies the scope of nonfinancial asset derecognition and the accounting for partial sales of nonfinancial assets. This adoption had no impact on the Company's financial statements and related disclosures in the current period.

ASU 2017-07 Compensation - Retirement Benefits: On January 1, 2018, Eastman adopted this standard retrospectively for income statement effects and prospectively for balance sheet effects. This standard is intended to improve the presentation of net periodic pension and postretirement benefit costs by requiring the reporting of the service cost component in the same line item or items as other compensation costs arising from services rendered by the pertinent employees during the period. The other components of net periodic benefit costs (interest cost, expected return on plan assets, curtailment gains or losses, amortization of prior service costs or credits, and mark-to-market gains or losses) are to be presented in the income statement separately from the service cost component and outside the subtotal of income from operations, if presented. Management has concluded that changes in its accounting required by this new standard will not materially impact the Company's financial statements and related disclosures.

ASU 2017-12 Derivatives and Hedging: On January 1, 2018, Eastman adopted this standard on a modified retrospective basis for income statement impacts and prospectively for presentation and disclosure resulting in a beginning retained earnings increase of $2 million related to the elimination of ineffectiveness recognized in "Accumulated other comprehensive income (loss)" ("AOCI") located in the Unaudited Consolidated Statements of Financial Position under the previous standard. This standard is intended to simplify the application of hedge accounting and improve the financial reporting of hedging relationships to better portray the economic results of an entity's risk management activities in the financial statements. Management has included the additional disclosures required by this standard in Note 6, "Derivative and Non-Derivative Financial Instruments".

Accounting Standards Issued But Not Adopted as of March 31, 2018

ASU 2016-02 Leases: In February 2016, the FASB issued a standard on lease accounting. The new standard establishes two types of leases for lessees: finance and operating. Both finance and operating leases will have associated right-of-use assets and liabilities initially measured at the present value of the lease payments. This standard is effective for annual reporting periods beginning after December 15, 2018, including interim periods within that reporting period and early adoption is permitted. The new standard is to be applied under a modified retrospective approach wherein practical expedients have been allowed that will not require reassessment of current leases at the effective date. In January 2018, the FASB issued an update to the new standard above in ASU 2018-01 that sets forth the requirement to assess land easements to determine if the arrangement should be accounted for as a lease. The effective date for this amended standard is the same as that of the lease standard stated above. Management is currently evaluating implementation options and impact on the Company's financial statements and related disclosures.

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NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

ASU 2016-13 Financial Instruments - Credit Losses: In June 2016, the FASB issued a standard relating to credit losses. The amendments require a financial asset (including trade receivables) to be presented at the net amount expected to be collected through the use of allowances for credit losses valuation account. The income statement will reflect the measurement of credit losses for newly recognized financial assets, as well as the expected increases or decreases of expected credit losses that have taken place during the period. This standard is effective for annual reporting periods beginning after December 15, 2019, including interim periods within that reporting period and early adoption is permitted, including adoption in an interim period, beginning after December 15, 2018. The new standard application is mixed among the various elements that include modified retrospective and prospective transition methods. Management does not expect that changes in its accounting required by the new standard will materially impact the Company's financial statements and related disclosures.

ASU 2017-04 Intangibles - Goodwill and Other: In January 2017, the FASB issued a standard as a part of its simplification initiative that bases the impairment of goodwill on any difference for which the carrying value is greater than the fair value of the reporting unit. This standard is effective for annual reporting periods, or interim period testing performed, beginning after December 15, 2019. Early adoption is permitted for interim or annual goodwill impairment testing performed after January 1, 2017. This standard is to be applied on a prospective basis for goodwill testing that occur after the effective date. Management does not expect that changes in its accounting required by the new standard will materially impact the Company's financial statements and related disclosures.

ASU 2018-02 Income Statement - Reporting Comprehensive Income: In February 2018, the FASB issued a standard that allows the reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the 2017 "Tax Cuts and Jobs Act" ("Tax Reform Act"). The amount of the reclassification is the difference between the historical corporate income tax rate and the newly enacted tax rate. This standard is effective for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. Early adoption is permitted, including adoption in any interim period, for reporting periods for which financial statements have not yet been issued. The new standard is to be applied either in the period of adoption or retrospectively to each period (or periods) in which the effects of the change in the income tax rate in the Tax Reform Act is recognized. Management is currently evaluating implementation options and impact on the Company's financial statements and related disclosures.

2. INVENTORIES

	March 31,	December 31,
(Dollars in millions)	2018	2017
Finished goods	$1,031	$ 1,114
Work in process	241	213
Raw materials and supplies	504	470
Total inventories at FIFO or average cost	1,776	1,797
Less: LIFO reserve	300	288
Total inventories	$1,476	$ 1,509

Inventories valued on the last-in, first-out ("LIFO") method were approximately 55 percent and 60 percent of total inventories at March 31, 2018 and December 31, 2017, respectively.

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NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

3. PAYABLES AND OTHER CURRENT LIABILITIES

	March 31,	December 31,
(Dollars in millions)	2018	2017
Trade creditors	$838	$ 842
Accrued payrolls, vacation, and variable-incentive compensation	120	199
Accrued taxes	67	111
Other	415	437
Total payables and other current liabilities	$1,440	$ 1,589

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

4. INCOME TAXES

	First Quarter			
(Dollars in millions)	2018		2017	
	$	%	$	%
Provision for income taxes and tax rate	$60	17%	$62	18%

The first quarter 2018 effective tax rate includes the impact of the U.S. corporate tax rate reduction resulting from the Tax Reform Act. The first quarter 2017 effective tax rate included adjustments to the tax provision to reflect planned amendments to and finalization of prior years' income tax returns.

As previously reported, the Company recognized an estimated net tax benefit for the year ended December 31, 2017, primarily resulting from the Tax Reform Act. The net tax benefit included a benefit from the one-time revaluation of deferred tax liabilities, partially offset by a one-time transition tax on deferred foreign income and changes in valuation of deferred tax assets. As of March 31, 2018, the Company continues to consider the accounting for the following impacts of the Tax Reform Act to be provisional and, accordingly, subject to adjustment in future periods: the transition tax on deferred foreign income (which consists of post-1986 accumulated earnings and profits of controlled foreign corporations and the determination of cash versus non-cash balances), the impact of the change in income tax rates on deferred tax assets and liabilities, and the evaluation of gross foreign tax credit carryforwards and related valuation allowances. In preparing the provisional estimates as of March 31, 2018, the Company has considered notices and revenue procedures issued by the Internal Revenue Service and authoritative accounting guidance.

Certain of the provisional amounts will be finalized in conjunction with the filing of the Company's U.S. federal income tax return for the year ended December 31, 2017 that will not be finalized until later in 2018. While historically differences between amounts reported in the Company's consolidated financial statements and the Company's U.S. federal income tax return have resulted in offsetting changes in estimates in current and deferred taxes for items which are timing related, the reduction of the U.S. tax rate will result in adjustments to the Company's income tax (benefit) provision when recognized. The Company also considers it likely that further technical guidance regarding certain aspects of the new provisions included in the Tax Reform Act, as well as clarity regarding state income tax conformity to current federal tax code, may be issued which could result in changes to the provisional amounts reported as of March 31, 2018 and related state income tax effects.

Additionally, the Company continues to consider the future impact of the Tax Reform Act for the fiscal year beginning January 1, 2018, including the new provisions known as the base erosion anti-abuse tax ("BEAT") and global intangible low-tax income ("GILTI") tax, as well as other provisions. Under U.S. GAAP, companies can make an accounting policy election to either treat taxes resulting from GILTI as a current-period expense when incurred or factor such amounts into the measurement of deferred taxes. The Company has not completed its analysis of the effects of the GILTI provisions and will further consider the accounting policy election within the measurement period as provided under Staff Accounting Bulletin No. 118, "Income Tax Accounting Implications of the Tax Cuts and Jobs Act".

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NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

5. BORROWINGS

(Dollars in millions)	March 31, 2018	December 31, 2017
Borrowings consisted of:		
5.5% notes due November 2019	$250	$ 250
2.7% notes due January 2020	798	797
4.5% notes due January 2021 (1)	192	185
3.6% notes due August 2022 (1)	753	738
1.50% notes due May 2023 (2)	920	895
7 1/4% debentures due January 2024	197	197
7 5/8% debentures due June 2024	43	43
3.8% notes due March 2025	689	690
1.875% notes due November 2026 (2)	609	592
7.60% debentures due February 2027	195	195
4.8% notes due September 2042	493	493
4.65% notes due October 2044	871	871
Commercial paper and short term borrowings	588	389
Credit facilities borrowings	300	200
Capital leases and other	2	5
Total borrowings	6,900	6,540
Borrowings due within one year	589	393
Long-term borrowings	$6,311	$ 6,147

(1) In January 2018, the Company entered into fixed-to-fixed cross-currency swaps with $180 million maturing 2021 and $320 million maturing 2022 and designated these swaps to hedge a portion of its net investment in a euro functional currency denominated subsidiary against foreign currency fluctuations. The hedged portion of the carrying value of the U.S. denominated 4.5% notes due January 2021 and 3.6% notes due August 2022 will fluctuate with changes in the euro exchange rate. During the three months ended March 31, 2018, pre-tax losses of $11 million were recognized in "Other comprehensive income (loss)" ("OCI") for revaluation of the hedged portion of these notes.

(2) The carrying value of the euro-denominated 1.50% notes due May 2023 and 1.875% notes due November 2026 will fluctuate with changes in the euro exchange rate. The carrying value of these euro-denominated borrowings have been designated as non-derivative net investment hedges of a portion of the Company's net investments in euro functional-currency denominated subsidiaries to offset foreign currency fluctuations. During the three months ended March 31, 2018, pre-tax losses of $42 million were recognized in OCI for revaluation of these notes.

Credit Facilities and Commercial Paper Borrowings

In December 2016, the Company borrowed $300 million under a five-year term loan agreement ("2021 Term Loan"). As of March 31, 2018, the 2021 Term Loan agreement balance outstanding was $200 million with an interest rate of 2.90 percent. As of December 31, 2017, the 2021 Term Loan agreement balance outstanding was $200 million with an interest rate of 2.60 percent. Borrowings under the 2021 Term Loan agreement are subject to interest at varying spreads above quoted market rates.

The Company has access to a $1.25 billion revolving credit agreement (the "Credit Facility") expiring October 2021. Borrowings under the Credit Facility are subject to interest at varying spreads above quoted market rates and a commitment fee is paid on the total unused commitment. The Credit Facility provides available liquidity for general corporate purposes and supports commercial paper borrowings. Commercial paper borrowings are classified as short-term. At March 31, 2018 and December 31, 2017, the Company had no outstanding borrowings under the Credit Facility. At March 31, 2018, the Company's commercial paper borrowings were $452 million with a weighted average interest rate of 2.30 percent. At December 31, 2017, the Company's commercial paper borrowings were $280 million with a weighted average interest rate of 1.61 percent.

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NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

In April 2018, the Company amended its $250 million accounts receivable securitization agreement (the "A/R Facility") to extend the maturity to April 2020. Eastman Chemical Financial Corporation ("ECFC"), a subsidiary of the Company, has an agreement to sell interests in trade receivables under the A/R Facility to a third party purchaser. Third party creditors of ECFC have first priority claims on the assets of ECFC before those assets would be available to satisfy the Company's general obligations. Borrowings under the A/R Facility are subject to interest rates based on a spread over the lender's borrowing costs, and ECFC pays a fee to maintain availability of the A/R Facility. In first quarter 2018, $100 million available under the A/R Facility was borrowed and remained outstanding at March 31, 2018 with an interest rate of 2.69 percent. At December 31, 2017, the Company had no borrowings under the A/R Facility.

The Credit and A/R Facilities and other borrowing agreements contain customary covenants and events of default, some of which require the Company to maintain certain financial ratios that determine the amounts available and terms of borrowings. The Company was in compliance with all covenants at both March 31, 2018 and December 31, 2017.

The Company has access to borrowings of up to €150 million ($185 million) under a receivables facility based on the discounted value of selected customer accounts receivable. This facility expires December 2020 and renews for another one year period if not terminated with 90 days notice by either party. These arrangements include receivables in the United States, Belgium, and Finland, and are subject to various eligibility requirements. Borrowings under this facility are subject to interest at an agreed spread above EURIBOR for euro denominated drawings and the counterparty's cost of funds for drawings in any other currencies, plus administration and insurance fees and are classified as short-term. At March 31, 2018, the Company's amount of outstanding borrowings under this facility were $136 million with a weighted average interest rate of 1.32 percent. At December 31, 2017, the Company's amount of outstanding borrowings under this facility were $109 million with a weighted average interest rate of 1.31 percent.

Fair Value of Borrowings

Eastman has classified its total borrowings at March 31, 2018 and December 31, 2017 under the fair value hierarchy as defined in the accounting policies in Note 1, "Significant Accounting Policies", to the consolidated financial statements in Part II, Item 8 of the Company's 2017 Annual Report on Form 10-K. The fair value for fixed-rate debt securities is based on current market prices and is classified as Level 1. The fair value for the Company's other borrowings primarily under the Term Loan, commercial paper, A/R Facility, and a receivables facility equals the carrying value and is classified as Level 2. The Company had no borrowings classified as Level 3 as of March 31, 2018 and December 31, 2017.

		Fair Value Measurements at March 31, 2018		
(Dollars in millions)	Recorded Amount March 31, 2018	Total Fair Value	Quoted Prices in Active Markets for Identical Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)
Total borrowings	$ 6,900	$7,192	$ 6,303	$ 889

(Dollars in millions)	Recorded Amount December 31, 2017	Fair Value Measurements at December 31, 2017		
		Total Fair Value	Quoted Prices in Active Markets for Identical Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)
Total borrowings	$ 6,540	$6,980	$ 6,386	$ 594

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NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

6. DERIVATIVE AND NON-DERIVATIVE FINANCIAL INSTRUMENTS

Overview of Hedging Programs

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

For further information on hedging programs, see Note 9, "Derivative and Non-Derivative Financial Instruments", to the consolidated financial statements in Part II, Item 8 of the Company's 2017 Annual Report on Form 10-K.

Cash Flow Hedges

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

Fair Value Hedges

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

Net Investment Hedges

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

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

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

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Summary of Financial Position and Financial Performance of Hedging Instruments

The following table presents the notional amounts outstanding at March 31, 2018 and December 31, 2017 associated with Eastman's hedging programs.

Notional Outstanding	March 31, 2018	December 31, 2017
Derivatives designated as cash flow hedges:		
Foreign Exchange Forward and Option Contracts (in millions)		
EUR/USD (in EUR)	€498	€525
Commodity Forward and Collar Contracts		
Feedstock (in million barrels)	7	7
Energy (in million million british thermal units)	20	23
Derivatives designated as fair value hedges:		
Fixed-for-floating interest rate swaps (in millions)	$75	$75
Derivatives designated as net investment hedges:		
Cross-currency interest rate swaps (in millions)		
EUR/USD (in EUR)	€416	—
Non-derivatives designated as net investment hedges:		
Foreign Currency Net Investment Hedges (in millions)		
EUR/USD (in EUR)	€1,241	€1,240

Fair Value Measurements

All the Company's derivative assets and liabilities are currently classified as Level 2. Level 2 fair value is based on estimates using standard pricing models. These standard pricing models use inputs that are derived from or corroborated by observable market data such as interest rate yield curves and currency spot and forward rates. The fair value of commodity contracts is derived using forward curves supplied by an industry recognized and unrelated third party. In addition, on an ongoing basis, the Company tests a subset of its valuations against valuations received from the transaction's counterparty to validate the accuracy of its standard pricing models. Counterparties to these derivative contracts are highly rated financial institutions which the Company believes carry minimal risk of nonperformance, and the Company diversifies its positions among such counterparties to reduce its exposure to counterparty risk and credit losses. The Company monitors the creditworthiness of its counterparties on an on-going basis. The Company did not recognize a credit loss during first quarter 2018 and 2017.

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

The Company has elected to present derivative contracts on a gross basis within the Unaudited Consolidated Statements of Financial Position. The following table presents the financial assets and liabilities valued on a recurring and gross basis and includes where the financial assets and liabilities are located within the Unaudited Consolidated Statements of Financial Position as of March 31, 2018 and December 31, 2017.

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The Financial Position and Fair Value Measurements of Hedging Instruments on a Gross Basis
(Dollars in millions)

Derivative Type	Statements of Financial Position Classification	March 31, 2018 Level 2	December 31, 2017 Level 2
Derivatives designated as cash flow hedges:			
Commodity contracts	Other current assets	$ 5	$ 9
Commodity contracts	Other noncurrent assets	2	4
Foreign exchange contracts	Other current assets	15	23
Foreign exchange contracts	Other noncurrent assets	1	2
Derivatives designated as fair value hedges:			
Fixed-for-floating interest rate swap	Other current assets	—	1
Total Derivative Assets		$ 23	$ 39
Derivatives designated as cash flow hedges:			
Commodity contracts	Payables and other current liabilities	$ 31	$ 28
Commodity contracts	Other long-term liabilities	10	10
Foreign exchange contracts	Payables and other current liabilities	10	6
Foreign exchange contracts	Other long-term liabilities	9	4
Derivatives designated as fair value hedges:			
Fixed-for-floating interest rate swap	Long-term borrowings	5	4
Derivatives designated as net investment hedges:			
Cross-currency interest rate swaps	Long-term borrowings	22	—
Total Derivative Liabilities		$ 87	$ 52
Total Net Derivative Liabilities		$ 64	$ 13

In addition to the fair value associated with derivative instruments designated as cash flow hedges and fair value hedges noted in the table above, the Company had a carrying value of $1.5 billion associated with non-derivative instruments designated as foreign currency net investment hedges at both March 31, 2018 and December 31, 2017. The designated foreign currency-denominated borrowings are included in the "Long-term borrowings" line item of the Unaudited Consolidated Statements of Financial Position.

For additional fair value measurement information, see Note 1, "Significant Accounting Policies", and Note 9, "Derivative and Non-Derivative Financial Instruments", to the consolidated financial statements in Part II, Item 8 of the Company's 2017 Annual Report on Form 10-K.

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As of March 31, 2018 and December 31, 2017, the following amounts were included on the Unaudited Consolidated Statements of Financial Position related to cumulative basis adjustments for fair value hedges.

(Dollars in millions)	Carrying amount of the hedged liabilities		Cumulative amount of fair value hedging loss adjustment included in the carrying amount of the hedged liability	
Line item in the Unaudited Consolidated Statements of Financial Position in which the hedged item is included	March 31, 2018	December 31, 2017	March 31, 2018	December 31, 2017
Long-term borrowings [1]	$(758)	$ (760)	$ 12	$ 10

[1] At March 31, 2018 and December 31, 2017, the cumulative amount of fair value hedging loss adjustment remaining for hedged liabilities for which hedge accounting has been discontinued was $7 million and $6 million, respectively.

The following table presents the effect of cash flow and net investment hedge accounting on OCI for first quarter 2018 and 2017:

(Dollars in millions)	Change in amount of after tax gain (loss) recognized in OCI on derivatives		Pre-tax amount of gain (loss) reclassified from OCI into earnings	
	March 31,		March 31,	
Hedging Relationships	2018	2017	2018	2017
Derivatives in cash flow hedging relationships:				
Commodity contracts	$(11)	$(16)	$ (2)	$ (7)
Foreign exchange contracts	(13)	(10)	3	12
Forward starting interest rate and treasury lock swap contracts	1	1	(1)	(1)
Non-derivatives in net investment hedging relationships (pre-tax):				
Net investment hedges	(42)	(18)	—	—
Derivatives in net investment hedging relationships (pre-tax):				
Cross-currency interest rate swaps	(11)	—	—	—
Cross-currency interest rate swaps excluded component	(11)	—	—	—

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The following table presents the effect of fair value and cash flow hedge accounting on the Unaudited Consolidated Statements of Earnings, Comprehensive Income and Retained Earnings for first quarter 2018 and 2017.

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

	First Quarter					
	2018			2017		
(Dollars in millions)	Sales	Cost of Sales	Net Interest Expense	Sales	Cost of Sales	Net Interest Expense
Total amounts of income and expense line items presented in the Unaudited Consolidated Statements of Earnings, Comprehensive Income and Retained Earnings in which the effects of fair value or cash flow hedges are recognized	$2,607	$2,026				