

TRANSFORMING



07

FINANCIAL
HIGHLIGHTS

Dollars in millions, except per share amounts

	2007	2006	Change
OPERATING RESULTS			
Sales	\$6,830	\$6,779	1%
Gross profit	1,192	1,265	(6)%
Operating earnings	504	654	(23)%
Earnings from continuing operations	321	427	(25)%
Loss from discontinued operations	(10)	(18)	(44)%
Loss from disposal of discontinued operations	(11)	–	–
Net earnings	300	409	(27)%
Earnings from continuing operations per share			
Basic	3.89	5.20	(25)%
Diluted	3.84	5.12	(25)%
Earnings from discontinued operations per share			
Basic	(0.26)	(0.22)	18%
Diluted	(0.26)	(0.21)	24%
Net earnings per share			
Basic	3.63	4.98	(27)%
Diluted	3.58	4.91	(27)%
Cash dividends per share	1.76	1.76	–
OTHER FINANCIAL DATA			
Impairments and restructuring charges, net	112	101	11%
Other operating income	–	(68)	(100)%
Net cash provided by operating activities	732	609	20%
Capital expenditures	518	389	33%
Depreciation and amortization expense	327	308	6%
Selling, general and administrative expense	420	423	(1)%
Research and development costs	\$ 156	\$ 155	1%

As the Company is exiting the polyethylene terephthalate ("PET") business in the European region, the results from sales of PET products manufactured at the Spain, the Netherlands, and United Kingdom sites are presented as discontinued operations and are not included in the results from continuing operations for all periods presented. For additional information, see Note 2, "Discontinued Operations and Assets Held for Sale," to the Company's consolidated financial statements in Part II, Item 8 of the 2007 Annual Report on Form 10-K.

ABOUT EASTMAN

At Eastman Chemical Company, we manufacture and market the chemicals, fibers and plastics that give everyday products the strength, design and functional characteristics desired by consumers and commercial customers worldwide. By leveraging the capabilities of our people to innovate and execute, we provide key differentiated coatings, adhesives and specialty plastics products; we are a major supplier of cellulose acetate fibers; and we've introduced a revolutionary breakthrough in manufacturing PET polymers for packaging. Founded in 1920 and a FORTUNE 500 company, Eastman became a public company in 1994 and remains headquartered in Kingsport, Tenn., with approximately 10,800 employees around the world.

FOR GROWTH

We are TRANSFORMING Eastman to create greater and significant value for all our stakeholders. Our strategy builds on the clear potential of industrial gasification and the strengths of our core businesses, allowing us to focus on growth. By transforming ourselves, we are better prepared for today's uncertain business environment – and tomorrow's.



FOR OUR STOCKHOLDERS



J. Brian Ferguson
Chairman and Chief Executive Officer

Eastman's breakthrough technologies and smart business strategies are transforming your Company, helping to ensure our industry leadership continues. Indeed, Eastman is better positioned today for profitable growth and value creation than at any other time in our history.

Our strong results over the past several years demonstrate the progress we are making. We have removed \$2 billion of revenue suffering from low, single-digit operating margins. We have reduced cyclicity and optimized our businesses to take advantage of growth opportunities. And we've continued to leverage technology leadership as we focus our resources on strategic growth initiatives. The result? Eastman people have more than doubled operating margins and earnings from 2003 to 2007.

Our performance in 2007 alone, which caps off the best three-year period of earnings in Eastman's history excluding restructuring-related items, demonstrates the progress we are making.

- We achieved solid operating margins of 10 percent excluding restructuring-related items, despite higher raw material and energy costs.

- With a net debt-to-capital ratio of 26 percent, our balance sheet is the strongest it has ever been and Eastman has the highest stockholders' equity in the Company's history.
- Eastman's financial strength is supported by continued strong cash from operations, which reached \$732 million in 2007.
- We are investing in our future as demonstrated by our share repurchases totaling nearly \$400 million in 2007. When we're finished with the current authorization, we will have bought back \$1 billion of our shares since 2007.
- We continue to pay strong dividends as we have every year since becoming a public company.
- Our return on invested capital excluding restructuring-related items was 13 percent, well above our cost of capital.
- Our compounded annual growth rate for total return to stockholders for the past five years (2003–2007) has been 15 percent.

I am certainly proud of these results. They reflect the hard work of Eastman people and our record of delivering on the commitments we make – to our customers and to stockholders alike. But the financial figures and statistics don't tell the full story about Eastman's people, technology, know-how and transformative strategies. Together, these elements are helping us make the most of our market opportunities around the world so that we maintain this momentum well into the future.

Transforming Strategies Support Bold Targets in 2008 and Beyond

The world today is a dynamic place. Our suppliers and customers are large global companies, and we're seeing new entrants in our markets every year. Perhaps more than ever, people care about the legacy they leave future generations and are ready to take action to address social and environmental concerns. Many companies see these challenges as threats. At Eastman, we see these as opportunities for which we can take an unconventional approach to succeeding in the marketplace. We have developed a number of transforming initiatives which do more than simply respond to challenges. They allow us to both embrace change and turn challenges into competitive advantages.

Earlier this year, we quantified the expected benefit of these initiatives with a bold forecast of doubling earnings per share to \$10 by 2012. Along the way, we expect earnings to improve each year from 2008–2012, with a 10 percent to 15 percent increase in 2009 earnings over

2008. Our strategy for achieving this level of performance focuses on two areas: industrial gasification and growth in our existing businesses.

A Solid Base

Before I discuss the growth strategy in more detail, I want to assure you we don't take for granted the core business that makes up our current base of earnings. It's strong, and the work I see going on throughout the Company gives me confidence that strength will continue.

Both the global diversity in our revenue and operating margins and the end-market diversity from the products we provide our customers give Eastman a firm position for growth.

We're building on core businesses like Specialty Plastics and Fibers. We're improving the Performance Polymers segment. And we've come to depend on solid performance in our Performance Chemicals & Intermediates (PCI) and Coatings, Adhesives, Specialty Polymers & Inks (CASPI) segments, which contain product lines based on proven technologies. PCI just completed its highest earning year in a decade, excluding restructuring-related items, reflecting our focus on minimizing cyclicality and improving profitability. We have also transformed CASPI over the years to the point where that segment now consistently delivers strong earnings, with healthy operating margins typically in the 15 percent to 20 percent range. Excluding restructuring-related items, CASPI's performance for the past two years has been the best in its history.

“Eastman people have more than doubled operating margins and earnings from 2003 to 2007. Our performance in 2007 alone, which caps off the best three-year period of earnings in Eastman's history excluding restructuring-related items, demonstrates the progress we're making.”

Growth Initiatives in our Core Businesses

We expect growth initiatives in our Specialty Plastics, Fibers, and Performance Polymers segments to contribute about \$3 per share to earnings by 2012.

Specialty Plastics: Our priority is to increase operating earnings in this segment to a level approaching \$100 million in 2009, with continuing improvement thereafter. We are converting PET capacity to copolyester production, adding 50,000 metric tons by mid-2008 and another 50,000 metric tons by 2010. We also plan to capitalize on the explosive growth in the LCD market, with revenue from cellulose esters used in LCD screens expected to double from \$50 million in 2007 to \$100 million in 2009. Our newly-launched Eastman Tritan™ copolyester is being warmly welcomed and requested by customers who want to broaden their possibilities for product design and performance.

Fibers: Eastman's 2007 operating earnings in this segment were its highest ever, and global demand for acetate tow continues to increase. To capture this demand, we have been working to expand Eastman's capacity. We are on track to complete the expansion of our Workington, England, facility by the end of 2008 and expect to announce details of our strategy for growth in Asia later this year.

Performance Polymers: Our continued major changes in this segment are resulting in a smaller, more profitable business. Our intent is to drive operating margins to near 10 percent by 2009. We are doing that by completing the divestitures of our non-strategic PET manufacturing

facilities outside the U.S. and by transforming our South Carolina facility. There, by the middle of 2008, we plan to have reduced conventional PET polymers capacity by 400,000 metric tons; shut down Eastman's less efficient DMT intermediates assets; increased PTA intermediates capacity; and eliminated approximately \$30 million of annual costs.

Our breakthrough IntegRex™ technology has delivered all we expected, and more. IntegRex™ technology was developed, designed and built to reduce capital and conversion costs by 50 percent. This translates into a smaller manufacturing footprint, as well as a product that delivers packaging enhancements. By the end of 2008, we expect over 60 percent of our PET capacity to be based on IntegRex™ technology. We are also actively pursuing licensing this technology to gain an additional revenue and earnings stream for the Company. As a result of these actions, we expect that the Performance Polymers segment, which had been our largest revenue business, will become our smallest. More importantly, it will yield greater profitability, with operating margins expected to approach 10 percent for full year 2009.

Industrial Gasification is Transformational

We have two active industrial gasification projects underway – one in Texas and one in Louisiana. We anticipate that together they will contribute approximately \$2 per share to Eastman's earnings by 2012.

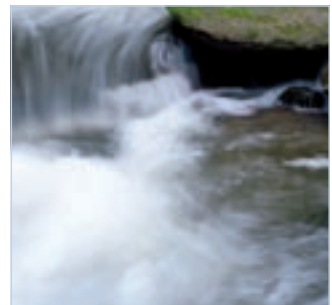
2008 marks the 25th anniversary of the start-up of our first gasification plant. Eastman is truly a pioneer in using this versatile and clean process for converting



Recognized for Safety: Eastman employees have long been recognized for keeping our facilities operating safely and reliably.



Caring for the Environment: In 2007, Eastman announced its plans to invest \$200 million in new equipment at its Tennessee operations in Kingsport to reduce air emissions.



“Eastman employees are the ones who make everything possible. Because of their efforts, Eastman gained recognition from *Corporate Responsibility Officer Magazine* as one of the 100 best corporate citizens among U.S.-headquartered public companies for 2008. Among U.S. chemical companies, *CRO Magazine* found Eastman to be among the top five.”

carbon-containing feedstocks into a synthesis gas, or syngas. We have proven that Eastman can operate this transformative technology to gain a low and stable cost position to produce industrial chemicals used in a variety of consumer end products.

Using industrial gasification for the production of chemicals is an environmentally responsible choice. Unlike most other applications of gasification technology, industrial gasification has the capability to readily capture nearly all the carbon dioxide from the process. The captured carbon dioxide can then be sold into the enhanced oil recovery market which provides a viable alternative for storing carbon dioxide. There are other benefits to the U.S. economy as a whole since Eastman's projects will create new jobs and lessen our reliance on foreign energy resources.

The fact that we're working with proven co-investors for our projects further enhances our confidence for success. The Texas project, which we expect to be online in 2011, is being developed by Eastman and is owned jointly by Eastman and Green Rock Energy, L.L.C., which is a company formed by the D.E. Shaw Group and Goldman, Sachs & Co. to invest in gasification projects. Eastman is a minority owner of the Louisiana project, which is sponsored by Faustina Hydrogen Products, L.L.C. – primarily owned by Green Rock Energy, L.L.C.

Our innovative business model, which includes securing contracts now for future product from these plants, further mitigates market risks associated with these projects.

Maintaining Financial Discipline

We have significantly improved our balance sheet in recent years. In fact, it is stronger than ever. Strong earnings from almost all of our segments throughout 2007 have been the key driver for our cash flow.

Our expectation is that achieving the bold targets we've set for ourselves and our proven ability to deliver on our commitments will translate into continued strong cash flow from operations going forward. Of course, we will maintain financial discipline as we put our cash to work funding our growth initiatives.

Eastman People Deliver

When we began planning our transforming strategy, we knew we could count on two major assets: our people and our technology.

Eastman employees are the ones who make everything possible. Because of their efforts, Eastman gained recognition from *Corporate Responsibility Officer Magazine* as one of the 100 best corporate citizens among U.S.-headquartered public companies for 2008. Among U.S. chemical companies, *CRO Magazine* found Eastman to be among the top five. Corporate citizenship is not new for Eastman men and women. It's at the heart of everything we do, from serving customers, to keeping our facilities operating safely and reliably, and protecting the environment. One important aspect of Eastman's corporate citizenship is our commitment to the highest ethical behavior and unquestionable integrity in our financial reporting and daily business activities. This is an integral part of the culture of our Company.

The ability of our people to innovate and execute – again and again – gives me confidence in Eastman's future and in our ability to continue achieving the aggressive goals we set for ourselves and for your Company.

Sincerely,



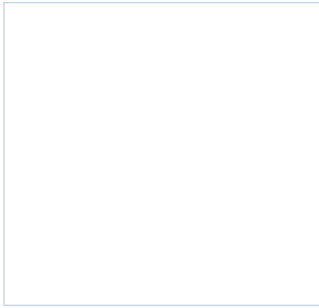
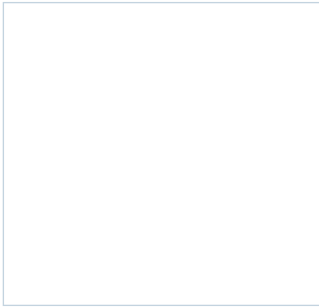
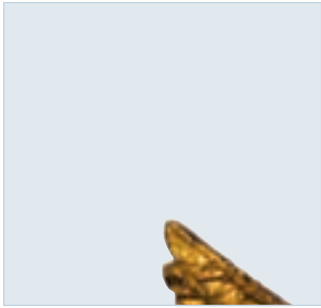
J. Brian Ferguson
Chairman and Chief Executive Officer

EASTMAN AT-A-GLANCE

Eastman products are found throughout your house, but they're not household names. They're the ingredients that give strength and design and functionality to the things touching your life every day. Our more than 1,200 products are used in making everything from the packaging for your food, drinks and personal care products, to the fabric in your clothing and home furnishings,

to the paint on your house and automobile, to the plastics on your bicycle helmet and golf clubs. We can be found in all these things, plus so many more. At home, at work, and at play, we're with you all day, every day. Eastman products make your life safer, easier, more convenient, and more enjoyable.

<h2>Performance Polymers</h2>			<p>Eastman Vitiva™ PET offers crystal-clear, durable packaging with UV protection.</p>
	<p>Key Products: Polyethylene Terephthalate (PET) polymers</p> <p>Key Markets & Applications: Beverage packaging, food packaging, custom care packaging, cosmetics packaging, health care and pharmaceutical, household products, industrial packaging</p>	<p>Key Raw Materials: Paraxylene, purified terephthalic acid, ethylene glycol</p> <p>Key Competitors: DAK Americas, Far Eastern Textiles LTD, Indorama, Invista, M&G, Nan Ya Plastics Corporation, Wellman, Inc.</p>	
	<h2>Fibers</h2> <p>Chico's chooses fabrics of Eastman acetate yarn – the natural fiber of choice for comfort and the environment – for their high-fashion garments.</p>		<h2>Performance Chemicals & Intermediates</h2>
<p>Key Products: Acetate tow, acetate yarn, acetyl chemical products (acetate flake, acetylation-grade acetic acid, acetic anhydride), triacetin plasticizers</p> <p>Key Markets & Applications: Cigarette filters, apparel, home furnishings, industrial applications</p>	<p>Key Raw Materials: High sulfur coal, wood pulp</p> <p>Key Competitors: Celanese Corporation, Daicel Chemical Industries, Ltd., Mitsubishi Rayon Co., Ltd., Rhodia S.A., SK Chemicals Company</p>	 <p>Eastman NutriLayer™ is a premium, natural ingredient delivering anti-aging and smoothing benefits in topical health and beauty applications.</p>	
		<p>Key Products: Acetic anhydride, acetaldehyde, oxo derivatives, plasticizers, glycols, polymer intermediates, diketene derivatives, specialty ketones, specialty anhydrides</p> <p>Key Markets & Applications: Agrochemical, automotive, beverages, personal care, pharmaceuticals, coatings,</p>	<p>flooring, medical devices, toys, photographic and imaging, household products, polymers, textiles, industrials</p> <p>Key Raw Materials: Coal, ethane, natural gas, propane</p> <p>Key Competitors: BASF, Celanese Corporation, Dow, Exxon Mobil Corporation</p>



2007 SALES REVENUE* BY MARKET
percentage

Coating, Adhesives, Specialty Polymers and Inks



Eastman Cellulose Acetate Butyrates (CABs) protect Mexico's Angel of Independence – its symbol of freedom and hope – against potential environmental damage.

23% Packaging

Key Products: Coatings Additives and Solvents: Cellulosic polymers, adhesion promoters, Texanol™ ester alcohol, oxygenated solvents
Adhesive Raw Materials: Hydrocarbon resins, rosin resins, resin dispersions, polymer raw materials

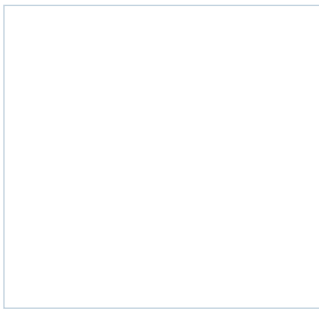
Key Markets & Applications: Coatings Additives and Solvents: Architectural latex paints, automotive and industrial Original Equipment Manufacturer (OEM), auto refinish paints, printing inks
Adhesive Raw Materials: Adhesives for tapes, labels, packaging, nonwovens such as disposable diapers

Key Raw Materials: Coatings Additives and Solvents: Acetone, coal, ethane, natural gas, propane, propylene, wood pulp
Adhesive Raw Materials: Butane, C9 resin oil, ethane, natural gas, piperylene, propane, pygas
Key Competitors: BASF, Dow, Exxon Mobil Corporation

15% Tobacco

Y-water™ bottles for kids are blow-molded from Eastman Easstar™ copolyester.

Specialty Plastics



14% Building and Construction

11% Transportation



Key Products: Specialty polyesters and copolyesters (high melt strength, high clarity, high temperature, etc.), concentrates, additives, alloys, cellulose flake and compounded cellulose plastics
Key Markets & Applications: 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 and liquid crystal displays
Key Raw Materials: Ethylene glycol, paraxylene, purified terephthalic acid and cellulose (wood and cotton)
Key Competitors: Acetati SpA, Bayer AG, Daicel, Dow, NOVA Chemicals, Saudi Basic Industries Corporation (SABIC), SK Chemical Industries

8% Consumables

8% Graphic Imaging

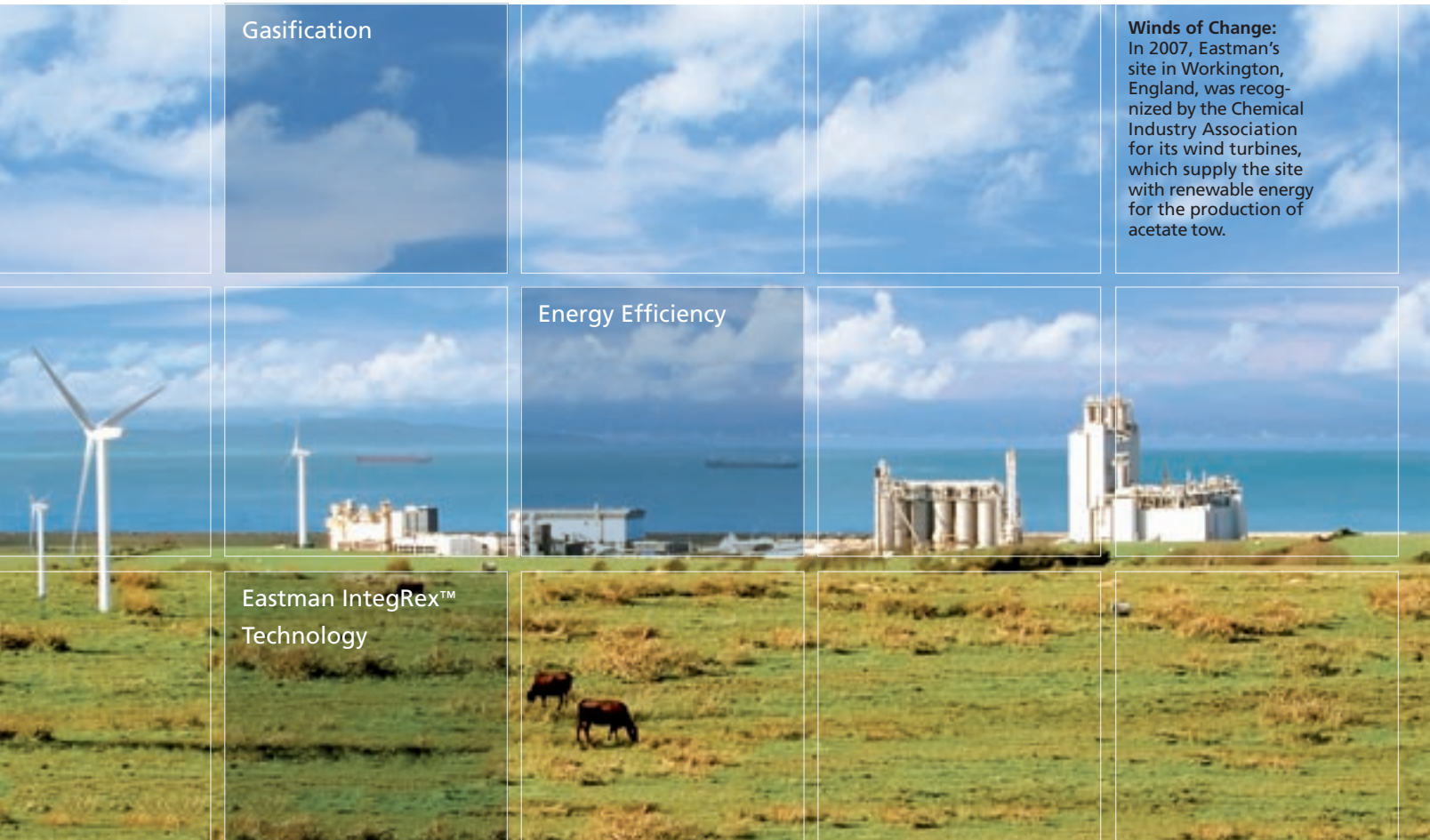
6% Durables

6% Health Care

4% Distributed Resources

3% Agriculture
2% Electronics

*2007 Sales Revenue excludes contract ethylene sales and PET sales from Mexico and Argentina manufacturing facilities.



Gasification

Winds of Change:
In 2007, Eastman's site in Workington, England, was recognized by the Chemical Industry Association for its wind turbines, which supply the site with renewable energy for the production of acetate tow.

Energy Efficiency

Eastman IntegRex™
Technology

FOR EMBRACING CHANGE

Our reputation for being responsive to market needs – with better products, processes and manufacturing – comes from generations of Eastman people who continue to exceed expectations.

Lean, Clean, Green Machine

We are embracing industrial gasification for the transformational benefits it will have on Eastman and American industry. This environmentally friendly process converts plentiful domestic resources – like coal and petroleum coke – into a gas that can be used either for energy or industrial raw materials.

These abundant feedstocks reduce our exposure to the price volatility of oil and natural gas and our dependence on foreign energy sources. The gasification process reduces air pollutants and separates out nearly all the

carbon dioxide – a greenhouse gas associated with global warming. The carbon dioxide can then be sold into the enhanced oil recovery market which provides a viable alternative for storing carbon dioxide.

With our two industrial gasification projects on the U.S. Gulf Coast, we are supporting domestic job creation and energy independence, while gaining a competitive cost position. Our 25 years of experience operating the first commercial coal gasification facility in the U.S. sets us apart, as does our 98% on-stream rate.

Breakthrough Business Model

Our breakthrough PET production process using IntegRex™ technology has secured its place in the market as the best technology for manufacturing PET. Yet financial results for PET polymers remain below acceptable levels



Through transforming initiatives across the Company, we are better able to embrace the multitude of shifting trends affecting industry today. In addressing everything from climate change and energy costs to borderless businesses and environmental stewardship, we are working in new ways that focus on being *greener, smarter and more cost efficient*. And beyond just meeting these challenges, we are turning them into competitive advantages.

as global supply, particularly in Asia, outpaces even strong demand growth for this commodity product. Our strategic actions to improve profitability include expanding our IntegRex™ technology-based PET capacity at our South Carolina site and completing the divestiture of non-strategic PET assets outside the U.S.

Beyond changing how we make PET, we are changing our business model to create more value from IntegRex™ technology. Instead of spending capital to build new facilities, we will license IntegRex™ technology, with revenues and earnings expected to bolster Performance Polymers' results in 2009 and beyond.

Less is More

We continue to invest in reducing our environmental footprint at facilities around the globe. Whether it's wind

turbines at Workington, England, or energy conservation measures in Longview, Texas, we are realizing considerable savings and improving our environmental stewardship.

In Kingsport, Tenn., our efforts to reduce energy use and shrink our carbon footprint have gained recognition locally and nationally. The U.S. Department of Energy bestowed its Energy Champion Award on the site. Additionally, we have announced plans to invest \$200 million at the site for equipment to reduce air emissions.

In Middelburg, the Netherlands, a new boiler installed in 2007 next to the facility's incinerator allows residual heat to be used in generating steam. In addition to financial savings, annual natural gas usage is expected to drop 15 percent and carbon dioxide emissions to decrease by 10 percent.

A New-Generation Copolyester: Eastman recently partnered with CamelBak Products, LLC, to manufacture the CamelBak® Better Bottle product line using Eastman Tritan™ copolyester.



Innovation

Expertise

High-End Markets



Our ability to embrace the changes buffeting our business, our customers and the world around us are deeply rooted in technology and capabilities developed over generations. We have a long history as innovators, as first users of new technologies and as experts in leveraging our know-how to develop practical solutions that create an advantage.

FOR LEVERAGING TECHNOLOGY

Technology is at the core of our value creation, and at the heart of our technology are Eastman scientists, engineers and business teams. Together, they work to solve today's problems and to imagine tomorrow's possibilities.

Clearly Better

Eastman Tritan™ copolyester, a new-generation copolyester, is the result of unique chemistry based on a new commercial monomer. Tritan™ delivers the advantages of traditional copolyesters, such as clarity and chemical resistance, with higher heat resistance, improved design flexibility and ease of processing.

Tritan™ is ideal for a broad range of applications, including housewares and appliances. It can be molded without incorporating high levels of residual stress. Combined with the outstanding chemical resistance and hydrolytic stability of Tritan™, these features give molded products enhanced durability in the dishwasher, which exposes products to high heat, humidity and aggressive cleaning detergents.

In addition, Tritan™ gives designers a new level of freedom to create products with enhanced aesthetics and attributes, as product designs do not need to be limited to minimize the effects of residual stress. Its core advantages can be a fundamental game-changer for brand owners, product designers, processors and fabricators, allowing greater freedom to address evolving consumer preferences for differentiated, high-performance products.

Initial applications for Tritan™ include the CamelBak® Better Bottle, the new Vita-Mix® 5200 blender container and commercial soup bowls by Carlisle Food Service Products.

Flat Screens, Exciting Business

The popularity of liquid crystal display (LCD) screens has created such opportunity for our cellulose esters in polarized film that we expect to double 2007 revenues to \$100 million in 2009. Initial work is underway to expand cellulose triacetate production capacity in Kingsport, Tenn., which is scheduled to come online in mid-2009.

The high-end market for LCD screens in monitors, laptop computers and televisions provides significant opportunities to grow both top-line revenues and bottom-line earnings, supporting Eastman's long-term growth plans in Specialty Plastics.

Thinking About Change

Our formula for innovation is simple. *Technology = People*. Our inventors are tremendously successful in creating intellectual property with commercial applications, and we have more than 800 active patents in the U.S. and another 1,500 around the world. IntegRex™ technology development led to more than 165 patent application filings and more than 70 for Tritan™.

At our 2007 Worldwide Innovation Conference, we brought together more than 600 Eastman scientists, engineers and business leaders to focus on making profitable connections between science and the marketplace. This biennial conference aims to accelerate the pace of innovation by strengthening links between technology, business, marketing and customers.

This year, we presented the first ever Perley S. Wilcox Award, Eastman's highest recognition of long-term innovation leading to business success. Thomas Puckette, Ph.D., was the inaugural recipient. A technology fellow in the chemical research and development lab in Longview, Texas, Puckette's work has set new standards for efficiency in manufacturing industrial intermediates.

The borderless nature of the chemical industry intensifies competition, with lower-cost business models in developing countries squeezing everyone's prices and profits. Product lifecycles shorten as ideas speed around the globe. At the same time, there is a world of opportunity as more doors are open in more markets with more customers.



FOR GROWING GLOBALLY

Our growth targets are based on a global commitment. To our customers. To moving product efficiently around the world. And to leveraging our presence in areas of high industrial and market growth.

Sales-driven Strategy

Our strategy for growing core businesses in emerging markets is driven by our sales force, not plant sites. We focus on placing sales and marketing people in targeted areas so they can get close to customers – and to customers’ customers – to develop demand and then service it from either regional sites or our low-cost U.S. facilities.

We’re seeing the impact in a gradual shifting of geographic performance, with sales revenue now at about 60 percent from North America and 40 percent from the rest of the world. On an operating earnings basis, the ratio is closer to fifty-fifty.

Market Trends

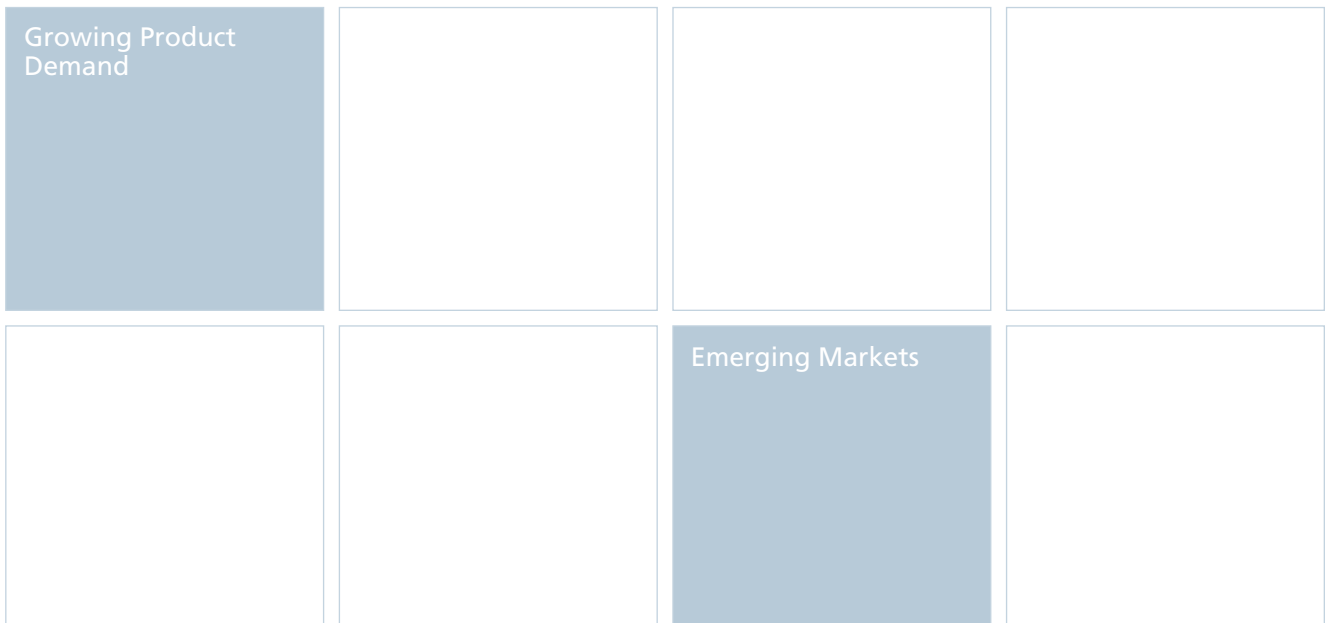
Technology and marketing are key to our success in emerging markets, particularly regions like Asia where demand for products like LCD screens is a boon for Specialty Plastics. Beyond our expertise in acetyl technology and manufacturing, we have built a reputation for working closely with customers to develop applications. This gives us a thorough understanding of customer needs and the buying process so we can move faster and more effectively.

Market trends, like longer length cigarette filters in China and other countries, are driving growth in acetate tow. Our strong customer relationships and deep knowledge of the industry enable us to identify opportunities that will allow us to benefit from these trends and grow along with our customers. For example, to better serve our existing customers in Western Europe and the growing demand in Eastern Europe, we are currently expanding acetate tow capacity at our site in Workington, England. We are also exploring options for new acetate tow capacity in Asia, a major growth region.

Developing Demand

Rising standards of living in developing countries are having a positive impact on demand for our intermediate materials used in higher quality products. In Russia, Poland, Turkey and across Eastern Europe, building construction continues to drive sales of latex paints made with our Eastman Texanol™ ester alcohol. Texanol™ is a non-VOC additive, meeting the specifications of EU Directives regarding volatile organic compounds, and is the industry standard in coalescent technologies used to aid film formation in paint.

Higher incomes also influence the switch from cloth diapers to disposables, which use our adhesives for nonwovens, and for cosmetics and other personal care items, driving growth within our core businesses. In Middelburg, the Netherlands, we are expanding capacity for Eastman Regalite™ hydrogenated hydrocarbon resins, which are used in a variety of hot-melt adhesives, polymer compounds and plastic modifications.



We are transforming Eastman with a strategy that focuses on industrial gasification and growth initiatives in our existing businesses. These steps, supported by our solid financial position, are expected to create significant value, doubling earnings to \$10 per share by 2012.

FOR ACHIEVING RESULTS

They also prepare us for the challenges of a global and changing industry, leveraging our strengths in technology and the expertise of our people. Underlying all that we do is a strict discipline for preserving the financial strength of the Company while investing for the future – and proven leadership in managing through challenging times.

Building on a Solid Base

Our business is based on using manufacturing streams to make value-added intermediates with performance advantages for our customers. Through our industrial gasification growth strategy, we expect to use plentiful, domestic, low-cost solid hydrocarbons – coal and petroleum coke – to secure a low and stable cost position while growing our current product portfolio and entering new chemical markets.

While industrial gasification presents a long-term opportunity, there are several areas presenting growth opportunities today and in the near-term. Fibers continues to provide a strong foundation for earnings, based on higher demand for acetate tow and its reliance on lower-cost coal as a raw material. In Specialty Plastics, we're moving into high-end, high-demand areas with applications in LCD screens and our new Tritan™ copolyester. We're also converting conventional PET assets to copolyester to allow faster growth at lower cost.

New Business Models

In some areas, we're changing our approach in order to improve a business. In Performance Polymers, we have made significant changes to improve PET results. We

have divested underperforming non-U.S. sites and replaced higher-cost PET capacity with more efficient and cost-effective IntegRex™ technology. Within the next two years, PET will be a much smaller, but a much more profitable, business within our portfolio. And we expect IntegRex™ technology to provide additional sources of revenue through licensing agreements with other PET producers.

We also have adopted business models for our industrial gasification projects that run counter to the traditional chemical industry, especially in manufacturing. Before the first shovelful of dirt is turned on a major new plant, we expect to sell the products that will be produced. So we are pursuing long-term customer relationships, with index pricing for raw material costs. This limits the financial and market risk while reducing cyclical in earnings.

Financial Discipline

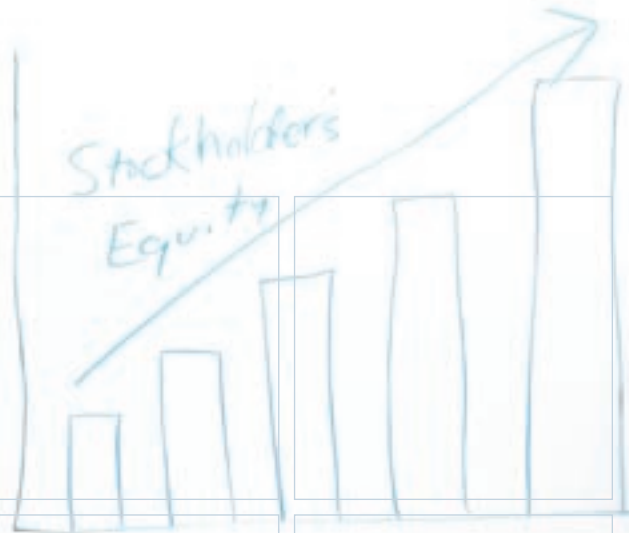
Our track record of delivering on our commitments and improving financial results is supported by our high level of discipline. Today, our balance sheet is the strongest it's ever been, and we have paid dividends every quarter since becoming a public company in 1994.

With confidence in Eastman's future cash flows and our strong financial profile, the Board of Directors twice authorized share repurchases in 2007, for a total of \$1 billion. Even with this major reinvestment in ourselves, we have the financial flexibility to continue funding profitable growth initiatives.

Strong
Balance Sheet

STRONG
FINANCIAL
PROFILE

Stockholders'
Equity



Solid Financial
Position

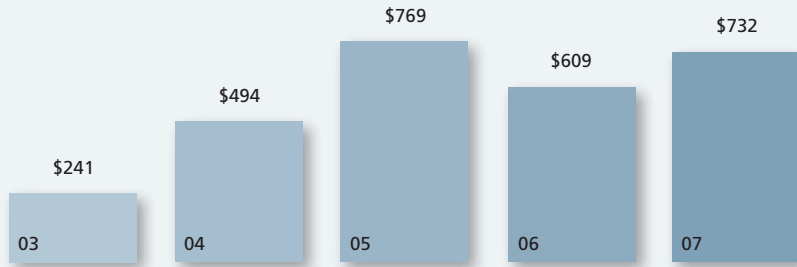
Investing
in the Future

**Aggressive and Achievable
Growth Goals:** Eastman's
strong financial profile and
strategic growth initiatives
will help double earnings
per share over the next
five years.

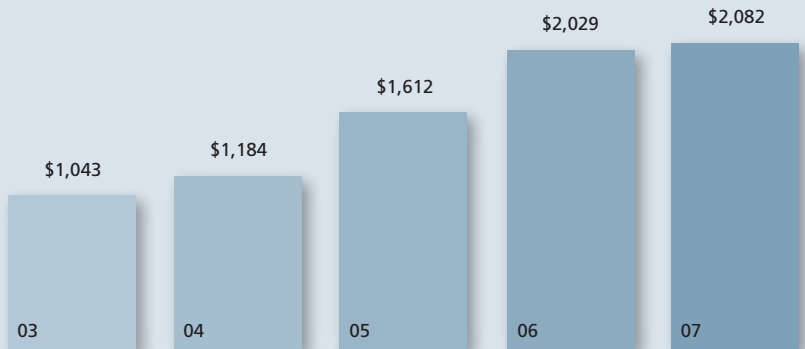
STRONG FINANCIAL PROFILE

WELL POSITIONED TO FUND PROFITABLE GROWTH INITIATIVES

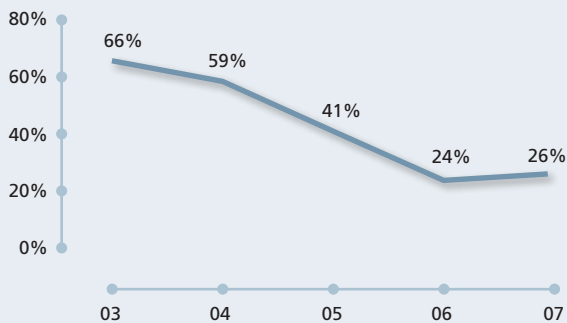
Cash from Operating Activities (in millions)



Stockholders Equity (in millions)



Net Debt as a Percent of Total Capital



BOARD OF DIRECTORS

GARY E. ANDERSON, 62 ^{1, 3, 4}
Retired Chairman of the Board,
Dow Corning

MICHAEL P. CONNORS, 52 ^{2, 3, 4, 5}
Chairman and Chief Executive Officer,
Information Services Group, Inc.

STEPHEN R. DEMERITT, 64 ^{2, 3, 4, 5}
Retired Vice Chairman,
General Mills, Inc.

J. BRIAN FERGUSON, 53
Chairman of the Board
and Chief Executive Officer,
Eastman Chemical Company

ROBERT M. HERNANDEZ, 63 ^{1, 3, 4}
Chairman of the Board,
RTI International Metals, Inc.

RENÉE J. HORNBAKER, 55 ^{1, 3, 4}
Chief Financial Officer,
Shared Technologies, Inc.

LEWIS M. KLING, 63 ^{2, 3, 4, 5}
President and
Chief Executive Officer,
Flowserve Corporation

HOWARD L. LANCE, 52 ^{1, 3, 4}
Chairman, President,
and Chief Executive Officer,
Harris Corporation

Committees:

- ¹ Audit Committee: Renée J. Hornbaker, Chair
- ² Compensation and Management Development Committee: Michael P. Connors, Chair
- ³ Finance Committee: David W. Raisbeck, Chair
- ⁴ Health, Safety, Environmental and Security Committee: Robert M. Hernandez, Chair
- ⁵ Nominating and Corporate Governance Committee: Stephen R. Demeritt, Chair

Committee Memberships as of March 1, 2008

THOMAS H. McLAIN, 50 ^{1, 3, 4}
Former Chairman, Chief Executive Officer,
and President,
Nabi Biopharmaceuticals

DAVID W. RAISBECK, 58 ^{2, 3, 4, 5}
Vice Chairman, Cargill, Incorporated

PETER M. WOOD, 69 ^{2, 3, 4, 5}
Former Managing Director,
J.P. Morgan & Company

Ages as of March 1, 2008



left to right: Michael Connors, Peter Wood, David Raisbeck, Thomas McLain, Brian Ferguson, Stephen Demeritt, Robert Hernandez, Gary Anderson, Howard Lance, Lewis Kling, Renée Hornbaker

Concept and Design: www.crittgraham.com
Photography: Ben Dowdy & Carla Olson, Eastman Chemical Company;
AP Images (CASPI image on page 7)

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Eastman Chemical Company
Kingsport, Tennessee, U.S.A.
423.229.2000
www.eastman.com
