



Dear valued customer,

Thank you for being a longtime strategic partner. We have been through a lot together—inflation, logistics challenges, and rapidly growing competition for raw materials. No doubt, we should expect these dramatic market adjustments to continue. But as always, we will get through this together.

There are reasons to be optimistic about the future. Industry growth in emerging markets is offsetting declines in the rest of the world. As a result, global decline has flattened in the past three years.

Since the 1950s, Eastman has been a major player in filter media. Today, we remain a world leader in innovating sustainable products made from cellulose. And we continue to work on key initiatives that will benefit us both. For example, Eastman EcoTow™ CRT is produced with our revolutionary molecular recycling to help address environmental concerns for the filter products market.

I hope you find this newsletter helpful in keeping abreast of current events, issues, and challenges in the market. Please reach out to our sales team if you have any questions. I look forward to our continued mutual success.

Sincerely,

A handwritten signature in black ink that reads "BAGC".

Burt A. Capel
President, Eastman Fibers

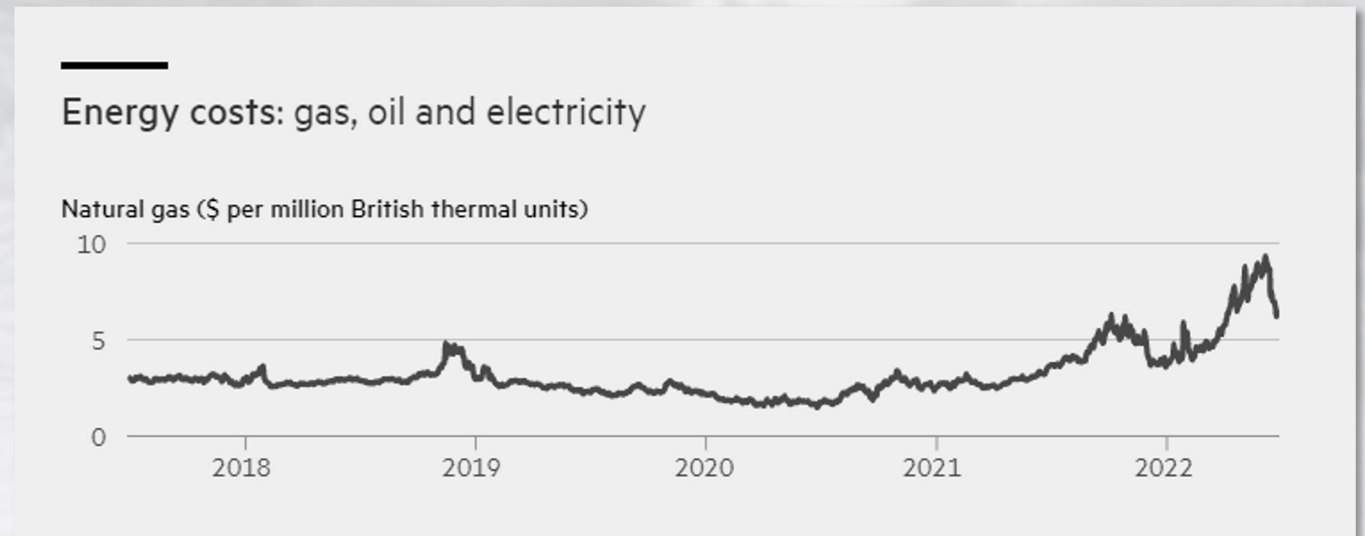


Inflation

The fibers market faces short-term headwinds that are stronger than we originally forecasted, which affects our ability to maintain our current service levels. Short capacity in raw materials, energy, and logistics have significantly raised costs. To address these issues, we will be working with our customers to align current capabilities with their needs.

Economists expect inflation to remain high through 2022, mainly driven by the energy sector. Europe's transition to greener energy and China's strategy to diversify their coal-dominated energy mix has increased global demand for natural gas, depleting supply. As a result, our natural gas costs have increased over 250% at our Kingsport, Tennessee, plant compared to 2020.

Our raw material suppliers are also experiencing increased costs, forcing them to implement surcharges that further add to manufacturing expenses.



Romei, V., & Smith, A. (2022, June 29). Global inflation tracker: see how your country compares on rising prices. *Financial Times*. <https://www.ft.com/content/088d3368-bb8b-4ff3-9df7-a7680d4d81b2>

Logistics

Logistics pressures are also expected to continue through 2023. Demand still exceeds capacity, and supply chain disruptions will continue—incurring costs beyond our control. Some of the mitigating factors include:

- No new marine vessel capacity has been planned until 2023.
- The continued risk of COVID-19 variants is affecting operations, leading to port closures and increased rates.
- Steamship lines are moving toward port-to-port moves, shifting the burden to shippers to schedule both drayage to port and the final leg to customers.
- With limited-capacity trucks, carriers are reducing service offerings.

As a result, our fiber business is bearing increased expenses for drayage to U.S. ports, container demurrage, container management, and container shipment.

Looking beyond 2022, there is opportunity for improvement. But it is uncertain. Increased vessel capacity may help with ocean transit; but it could shift bottlenecks to ports. Carriers have been posting record profits, which might lead them to invest in greater capacity. Or it may create a favorable environment for acquisitions and industry consolidation that supports higher rates long term.

OCEAN TRANSPORTATION Trade Lane Status

		DESTINATION				
WEEK 28-29		North America	LATAM	Europe	Middle East, Turkey & Africa	Asia Pacific
ORIGIN	North America	RED	YELLOW	RED	YELLOW	YELLOW
	LATAM	RED	RED	RED	YELLOW	RED
	Europe	RED	YELLOW	YELLOW	YELLOW	GREEN
	Middle East, Turkey & Africa	RED	RED	YELLOW	YELLOW	GREEN
	Asia Pacific	RED	RED	RED	YELLOW	RED



RED
Demand has exceeded available capacity



YELLOW
Demand is higher and/or capacity is limited



GREEN
Demand and capacity are at normal levels

Transport Status | Ocean. (2022a). BDP International.
<https://www.bdpinternational.com/transport-status-ocean>

Raw materials

With a global push for biobased products, there is growing competition for key raw materials for acetate production. Eastman has developed several new cellulose-based products for other markets to meet the demand for sustainability, compostability, and biodegradability. We recently introduced biodegradable Eastman Aventa™ compostable materials for the food packaging market. Eastman Trēva™ engineering bioplastic is a durable, chemical-resistant bioplastic making inroads in automotive, cosmetics, and eyewear markets. And Eastman Naia™ cellulosic fiber is a sustainable, biodegradable fiber for the apparel and home textiles markets.

The increased demand for these products has created increased complexity in our cellulosic raw materials and acetyl stream. We will, however, continue to work with our partners along the entire value stream to find ways to achieve a continuity of supply to meet your needs.



Eastman Trēva™ engineering bioplastic



Eastman Naia™ cellulosic fiber



Eastman Aventa™ compostable materials

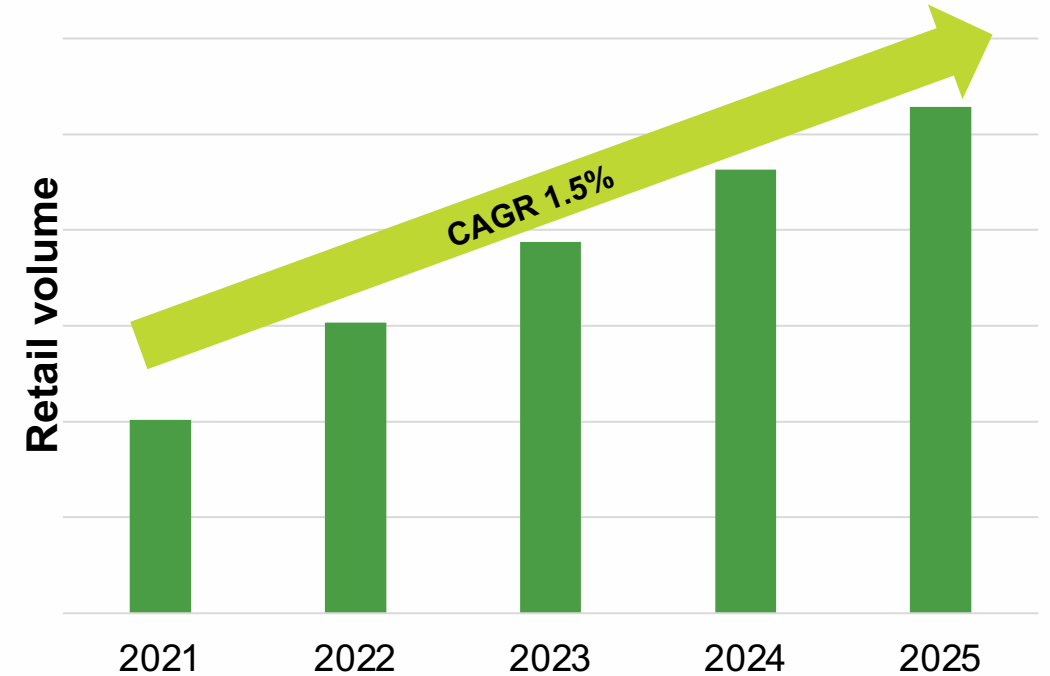
Stabilizing tobacco use

The Eastman tow team will ensure our customers get great value from our high-performing cellulose acetate—just as we have over the last 70 years.

While the World Health Organization (WHO) reports a decline in smokers in the Americas, Europe, and the Western Pacific region, the number of smokers is growing in African, Eastern Mediterranean, and Southeast Asia markets. Additionally, the growth in heat-not-burn products has created newer opportunities for the acetate tow industry.

As a result, even with a decrease in smoking prevalence, the demand for tow is expected to remain flat in the long mid-term.

Volume growth in African, Eastern Mediterranean, and Southeast Asia markets



Eastman estimation based on Euromonitor International data

Addressing environmental concerns

Despite the headwinds, Eastman remains determined to constantly support and create value for our customers, such as the coming introduction of Eastman EcoTow™ CRT produced from recycled content. We believe we are uniquely positioned to help our customers address global waste issues.

At Eastman, we are making major investments to drive and accelerate the circular economy, which will be the topic of our next newsletter.

We look forward to working with you during this time of great challenge and opportunity. Reach out to an Eastman representative should you have any questions.

CONTACT US

