2002 Compared With 2001

Sales revenue for 2002 increased moderately compared to 2001 mainly due to interdivisional sales and increased sales volumes, which had a positive impact on sales revenue of $61 million and $58 million, respectively. The increase in sales volumes for 2002 was primarily due to the Hercules businesses. Lower selling prices had a negative impact on sales revenue of $49 million.

Operating earnings for 2002 were negatively impacted by asset impairment and restructuring charges totaling approximately $5 million as described above and in Note 15 to the Company's consolidated financial statements. Operating results for 2001 were negatively impacted by asset impairments and restructuring charges and other nonrecurring operating items totalling approximately $88 million as more fully described above and in Notes 15 and 16 to the Company's consolidated financial statements. operating results for 2001 were also impacted by amortization of goodwill and indefinite-lived intangibles totaling approximately $20 million.

In addition to the items listed above, selling prices for 2002 declined more than raw material costs resulting in margin compression. Operating earnings for 2002 were also negatively impacted by fourth quarter asset charges relating primarily to equipment dismantlements and other write-offs totaling approximately $6 million.

For 2003, the Company expects the focus for the CASPI segment to be more on improved margins and profitability than on sales volume gains, except for the strong growth potential for CASPI products in the Asia Pacific and Latin america regions. Additionally, the Company expects further rationalization of businesses and products and consolidation of manufacturing facilities in the CASPI segment to improve overall gross margin.

PCI SEGMENT (DOLLARS IN MILLIONS)	2002	2001	CHANGE
Sales	$1,515	$1,132	34%
Volume effect			8%
Price effect			- 6%
Product mix effect			- 5%
Exchange rate effect			0%
Interdivisional effect			37%
Operating Loss	-15	-76	80%
Asset impairments and restructuring charges (gains)	- 1	73	
Other nonrecurring operating items	-	7	

2002 Compared With 2001

Sales revenue for 2002 increased $383 million including interdivisional sales, but declined $38 million excluding interdivisional sales. Lower selling prices had a negative impact on revenues of $65 million. Increased sales volumes had a positive impact on sales revenue of $87 million, partially offset by an unfavorable shift in product mix, which had a negative impact on revenues of $65 million. The shift in product mix was primary due to increased sales volumes of lower unit priced products, particularly glacial acetic acid in the acetyl and intermediates product group.

In 2002, a change in estimate resulting in a credit of approximately $2 million related to the sale of operating assets and a charge of approximately $1 million related to impaired research and development assets, as more fully described above and in Note 15 to the Company's consolidated financial statements, were recognized in the PCI segment. Results for 2001 were negatively impacted by asset impairments and restructuring charges totalling approximately $73 million and other nonrecurring operating items totaling approximately $7 million, as more fully described above and in Notes 15 and 16 to the Company's consolidated financial statements.

In addition to the items listed above, selling prices for 2002 declined more than raw material costs resulting in margin compression. Operating results for 2002 were also negatively impacted by fourth quarter asset charges relating primarily to equipment dismantlements and other write-offs totalling approximately $3 million.

During 2001, the Company reported that a large customer of the PCI segment did not intend to renew its contract for a custom synthesis product beyond June 30, 2002. as a consequence, the related assets were impaired as expected cash flows over the remaining term of the contract were not sufficient to recover the carrying value of such assets. Nonreccuring charges totaling approximately $70 m million related to the impacted assets were recorded during 2001 as part of the restructuring of the fine chemicals product lines, as described in Note 15 to the Company's consolidated financial statements. Subsequently, the customer initiated discussions with the Company which resulted in an agreement being reached in June 2002 to extend the custom synthesis product contract one year based on renegotiated terms. Sales revenue related to the contract extension was approximately 3% of PCI segment's sales revenue for 2002.

Long-term, the Company expects that aggressive management of costs in the PCI segment will help improve margins and position it to take full advantage of the upturn expected in the 2005 through 2006 timeframe. The PCI segment is aggressively identifying and implementing Six Sigma projects to reduce costs and improve performance.

SP SEGMENT (DOLLARS IN MILLIONS)	2002	2001	CHANGE
Sales	$595	$535	11%
Volume effect			2%
Price effect			- 4%
Product mix effect			1%
Exchange rate effect			0%
Interdivisional effect			12%
Operating Loss	23	46	-50%
Asset impairments and restructuring charges (gains)	-	15	
Other nonrecurring operating items	-	4	

2002 Compared With 2001

Sales revenue for 2002 increased $60 million compared to 2001 including interdivisional sales, but decreased $6 million excluding interdivisional sales. The decline in sales revenue excluding interdivisional sales was attributed to a decline in selling prices, which had a negative impact on

sales revenue of $19 million. The decline in selling prices was partially offset by increased sales volumes, which had a positive impact on sales revenue of $12 million.

Operating earnings for 2001 were negatively impacted by asset impairments and restructuring charges totalling approximately $15 million and other nonrecurring operating items totalling approximately $4 million, as more fully described above and in Notes 15 and 16 to the Company's consolidated financial statements.

In addition to the items above, operating earnings for 2002 were negatively impacted by lowering selling prices, mainly for cellulosic plastics products. The decline in operating earnings for 2002 was also partially due to the recognition of technology licensing revenue of $6 million that was reflected in results for 2001. New competitors in Asia and Europe negatively impacted results for copolyesters during 2002. However, the Company is committed to maintaining its cost advantages obtained from its scale of operations and manufacturing experience and increasing its utilization of current capacity.

VORDIAN DIVISION

POLYMERS SEGMENT (DOLLARS IN MILLIONS)	2002	2001	CHANGE
Sales	$1,565	$1,587	- 1%
Volume effect			8%
Price effect		-13%	
Product mix effect		0%	
Exchange rate effect		0%	
Interdivisional effect		4%	
Operating Loss	35	- 201	N/A
Asset impairments and restructuring charges (gains)	1	231	
Other nonrecurring operating items	-	26	

2002 Compared With 2001

The slight decrease in sales revenue for 2002 compared to 2001 was mainly due to lower selling prices, for both PET polymers and polyethylene, which had a negative impact on revenues of $207 million. Increased sales volumes, for both PET polymers and polyethylene, had a positive impact on revenues of $131 million. Interdivisional sales also had a positive impact on revenues of $55 million.

A nonrecurring charge of approximately $1 million related to impaired polyethylene assets was recognized in the fourth quarter of 2002. Results for 2001 were negatively impacted by asset impairments and restructuring charges totaling approximately $231 million and other nonrecurring operating items totaling approximately $26 million, as more fully described above and in Notes 15 and 16 to the Company's consolidated financial statements.

In addition to the items above, operational disruptions at the Company's plants in Rotterdam, the Netherlands and Columbia, South Carolina negatively impacted operating earnings for 2002 by approximately $39 million. The Company expects the insurance claims process associated with the operational disruptions to be settled in 2003, and that such settlement will positively impact operating earnings and cash flows when completed. Operating earnings for 2002 were also negatively impacted by fourth quarter asset charges relating primarily to equipment dismantlements and other write-offs totalling approximately $3 million. Operating earnings for 2002 were positively impacted by increased sales volumes for PET polymers, lower raw material costs, and better operation and utilization of polyethylene assets.

For 2003, the Company expects continued profitability from its PET polymers product as the Company maintains its focus on lowering costs and growing along with overall market demand growth. Longer term, the Company expects global demand for PET polymers to grow at an average rate of approximately 10% annually over the next several years. The Company also expects peaks and troughs in the Polymers segment created by supply and demand imbalances to be less pronounced in the future; capacity utilization in the Polymers segment to be lower in 2003 than in 2002 based on industry projections worldwide; and capacity utilization to vary by region.

FIBERS SEGMENT (DOLLARS IN MILLIONS)	2002	2001	CHANGE
Sales	$714	$628	14%
Volume effect			11%
Price effect			- 2%
Product mix effect			- 7%
Exchange rate effect			0%
Interdivisional effect			12%
Operating Earnings	133	146	- 9%
Other nonrecurring operating items	-	2	

2002 Compared With 2001

The increase in sales revenue for 2002 compared to 2001 was mainly due to interdivisional sales and higher sales volumes. Interdivisional sales had a positive impact on revenues of $73 million. Increased sales volumes had a positive impact on revenues of $69 million, largely offset by an unfavorable shift in product mix, which had a negative impact on sales revenues of $47 million. the unfavorable shift in product mix was due to increased sales volumes of lower unit priced products, particularly acetyl raw materials. Lower selling prices, primarily for acetyl raw materials, had a negative impact on sales revenue of $11 million.

Operating earnings for 2001 were negatively impacted by other nonrecurring operating items totaling approximately $2 million related to costs associated with efforts to spin-off the specialty chemical and plastics businesses as more fully described above and in Note 16 to the Company's consolidated financial statements. Operating earnings for 2002 were negatively impacted by fourth quarter asset charges relating primarily to equipment dismantlements and other write-offs totalling approximately $3 million.

For 2003, the Company expects the Fibers segment to experience flat to slightly lower revenues but consistent operating earnings and cash flows.

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

EASTMAN CHEMICAL COMPANY AND SUBSIDIARIES

occur, would not cause a significant impact on the commitments or sources of capital or debt available to the Company, and would not have a material impact on the Company's results of operations. However, an adverse change in the Company's credit rating could affect the renewal of existing credit facilities or the Company's ability to obtain access to new credit facilities in the future, could adversely affect the terms under which the Company can borrow, and could increase the cost of borrowings under such facilities.

The Company's operations from time to time are parties to or targets of lawsuits, claims, investigations, and proceedings, including product liability, personal injury, asbestos, patent and intellectual property, commercial, contract, environmental, antitrust, health and safety, and employment matters, which are handled and defended in the ordinary course of business. The Company believes amounts reserved are adequate for such pending matters; however, results of operations could be affected by significant litigation adverse to the Company.

The foregoing list of important factors does not include all such factors nor necessarily present them in order of importance. This disclosure, including that under "Outlook" and "Forward Looking Statements and Risk Factors," and other forward-looking statements and related disclosures made by the Company in this filing and elsewhere from time to time, represent management's best judgement as of the date the information is given. The Company does not undertake responsibility for updating any of such information, whether as a result of new information, future events, or otherwise, except as required by law. Investors are advised, however, to consult any further public Company disclosures (such as in filings with the Securities and Exchange Commission or in Company press releases) on related subjects.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

EASTMAN CHEMICAL COMPANY AND SUBSIDIARIES

The Company is exposed to changes in financial market conditions in the normal course of its business due to its use of certain financial instruments as well as transacting in various foreign currencies and funding of foreign operations. To mitigate the Company's exposure to these market risks, Eastman has established policies, procedures, and internal processes governing its management of financial market risks and the use of financial instruments to manage its exposure to such risks.

The Company is exposed to changes in interest rates primarily as a result of borrowing activities, which include short-term commercial paper and long-term borrowings used to maintain liquidity and to fund its business operations and capital requirements. Currently, these borrowings are predominately U.S. dollar denominated. The nature and amount the Company's long-term and short-term debt may vary as a result of future business requirements, market conditions, and other factors.

The Company's operating cash flows denominated in foreign currencies are exposed to changes in foreign currency exchange rates. The company continually evaluates it foreign currency exposure based on current market conditions and the locations in which the Company conducts business. In order to mitigate the effect of foreign currency risk, the Company enters into forward exchange contracts to hedge certain firm commitments denominated in foreign currency and currency options to hedge probable anticipated but not yet committed export sales and purchase transactions expected within no more than two years and denominated in foreign currencies. the gains and losses on those contracts offset changes in the value of related exposures. It is the Company's policy to enter into foreign currency transactions only yo the extent considered necessary to meet its objectives as stated above. The Company does not enter into foreign currency transactions for speculative purposes.

The Company is exposed to fluctuations in market price for certain of its raw materials. To mitigate short-term fluctuations in the market price for certain commodities, principally propane, ethane, and natural gas, the Company enters into forwards and options contracts.

The Company determines its market risk using sensitivity analysis, which measures the potential losses in fair value resulting from one or more selected hypothetical changes in interest rates, foreign currency exchange rates, and/or commodity prices. For 2001 and 2002, the market risk associated with the fair value of interest-rate-sensitive instruments, assuming an instantaneous parallel shift in interest rates of 10% are approximately $100 million and $81 million, respectively, and an additional $10 million for each one percentage point change in interest rates thereafter. This exposure is primarily related to long-term debt with fixed interest rates. The market risk associated with foreign currency-sensitive instruments utilizing a modified Black-Scholes option pricing model and a 10% adverse move in the U.S. dollar relative to each foreign currency hedged by the Company is approximately $4 million and $2 million and an additional $0.4 million and $0.1 million for 2002 and 2001, respectively, for an additional one percentage point adverse change in foreign currency exchange rates. Further adverse movements in foreign currencies would create losses in fair value; however, such losses would not be linear to that disclosed above. This exposure, which is primarily related to foreign currency options purchased by the Company to manage fluctuations in foreign currencies, is limited to the the dollar value of the option premiums payable to the Company for the related financial instruments. In 2002, the market risks associated with foreign currency options utilizing a modified Black-Scholes option pricing model and a 10% adverse change in the U.S. dollar relative to each foreign currency results in a $2 million loss in fair value.

CONSOLIDATED STATEMENTS OF EARNINGS (LOSS), COMPREHENSIVE INCOME (LOSS), AND RETAINED EARNINGS

EASTMAN CHEMICAL COMPANY AND SUBSIDIARIES

(DOLLARS IN MILLIONS, EXCEPT PER SHARE AMOUNTS)	2002	2001	2000
EARNINGS (LOSS)			
Sales	**$5,320**	$5,390	$5,292
Cost of sales	**4,541**	4,497	4,214
Gross Profit	**779**	893	1,078
Selling and general administrative expences	**407**	407	346
Research and development expenses	**159**	160	149
Asset impairments and restructuring charges, net	**5**	396	13
Other nonrecurring operating items	**-**	50	8
Operating earnings (loss)	**208**	-120	562
Intrest expense, net	**122**	140	135
Gain recognized on intital public offering of equity investment	**-**	-	-38
Other (income) charges, net	**2**	11	3
Other nonrecurring items	**-**	20	10
Earnings (loss) before income taxes and cumulative effect of change in accounting principle	**84**	- 291	452
Provision (benefit) for income taxes	**5**	- 116	346
Earnings (loss)before cumulative change in accounting principle	**79**	- 175	303
Cumulative effect of change in accounting principle, net	**- 18**	-	-
Net Earnings (loss)	**$ 61**	$ - 175	$ 303
Earnings (loss) per share			
Basic			
Before cumulative effect of change in accounting principle	**$ 1.02**	$- 2.28	$ 3.95
Cumulative effect of change in accounting principle, net	**- 0.23**	-	-
Net earnings (loss) per share	**$ 0.79**	$- 2.28	$ 3.95
Diluted			
Before cumulative effect of change in accounting principle	**$ 1.02**	$- 2.28	$ 3.94
Cumulative effect of change in accounting principle, net	**- 0.23**	-	-
Net earnings (loss) per share	**$ 0.79**	$- 2.28	$ 3.94
COMPREHENSIVE INCOME (LOSS)			
Net earnings (loss)	**$ 61**	$ - 175	$ 303
Other comprehensive income (loss)			
Change in cumulative translation adjustment	**102**	- 24	- 66
Change in miniimum pension liability, net of tax	**- 145**	- 106	4
Change in urealized (losses) on investments, net of tax	**- 2**	- 2	-
Change in urealized gains (losses) on derivative intrest, net of tax	**1**	- 2	-
Total other comprehensive loss	**- 44**	- 134	- 63
Comprehensive income (loss)	**$ 17**	$- 309	$ 240
RETAINED EARNINGS			
Retained earnings at beginning of period	**$1,956**	$2,266	$2,098
Net earnings	**61**	- 175	303
Cash dividends declared	**- 135**	- 135	- 135
Retained earnings at end of period	**$1,882**	$1,956	$2,266