

EASTMAN

**What keeps me up at
night?**

CIBO Annual Meeting
Williamsburg, Virginia
22 October 2010

What worries me?

- On a personal level?
 - Providing for my family
 - Seeing my neighborhood prosper
 - Hiking under blue skies next to clear streams

- On a professional level? Doing my job well & being rewarded for it.
 - Environmental stewardship
 - Improving & optimizing our equipment
 - Energy systems
 - Pollution controls
 - Teaching operators, mechanics, engineers
 - Strategic planning

What worries me?

- Overseas Competition
 - Regulated utilities don't view China as a threat
 - China "unlikely" to sell electricity in their home markets
 - Regulated utilities don't view pollution control investments as a threat to their survival
 - Capital recovery for pollution control investments is predictable
 - Eastman competes directly with China

- Cost of growing in the US
 - Cost of doing business in the US
 - Cap & trade, GHG, NAAQS, MACT, CCR, Regional Haze, etc.
 - Tax policies
 - Health care reform
 - Growth means new jobs, but where?
 - Why build here, if you can build overseas for half the cost?
 - Why build here, if your growth markets are overseas?

What worries me?

- In a “typical” work week?
 - Title V compliance (QA/QC)
 - CEMS & stack testing
 - CAIR reporting
 - Budgets

- In a strategic planning session?
 - NAAQS for Ozone, SO₂, etc.
 - Regional Haze
 - Boiler MACT
 - CISWI
 - HWC MACT
 - Transport Rule Phase II
 - CCR
 - Tailoring Rule
 - GHG Legislation
 - BACT for CO₂
 - Energy Efficiency Audits of “energy consuming systems”

What keeps me up at night?

- A lot of things worry me, but what really keeps me up at night?

UNCERTAINTY

What keeps me up at night?

- Or more specifically,
 - Staking my reputation on crystal ball predictions
 - Asking for capital with no clear assurance of success
 - Asking year after year for capital to chase a moving target
- *In other words, consuming the company's treasury for things that create little value*

What keeps me up at night?

- Now hold on just a minute.....



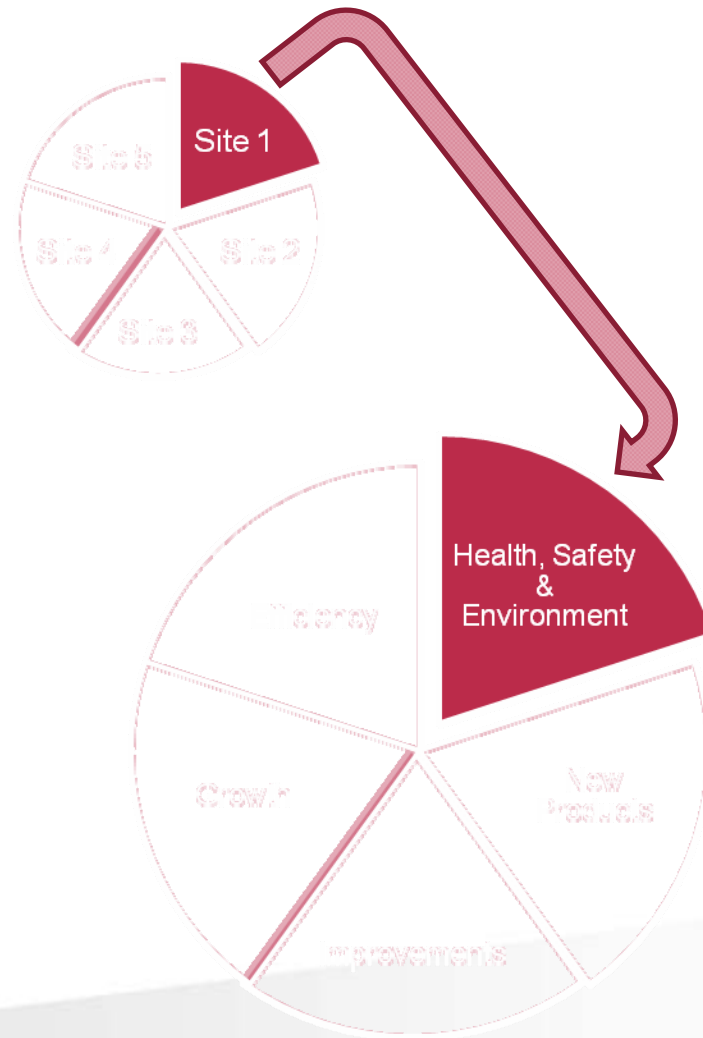
Consuming the company's treasury for things that create little value

- “Classical economic theory says that good projects – projects that clear your hurdle rate – will all eventually get funded.”

What keeps me up at night?

The capital budgeting process

- Executive management & BOD set the budget
- Budget is divided up
 - By site, by business unit, etc.
- For each site or unit, budget is divided up again
 - Mandatory spending: Health, Safety, Environment
 - Discretionary spending: Based on return on investment (ROI)

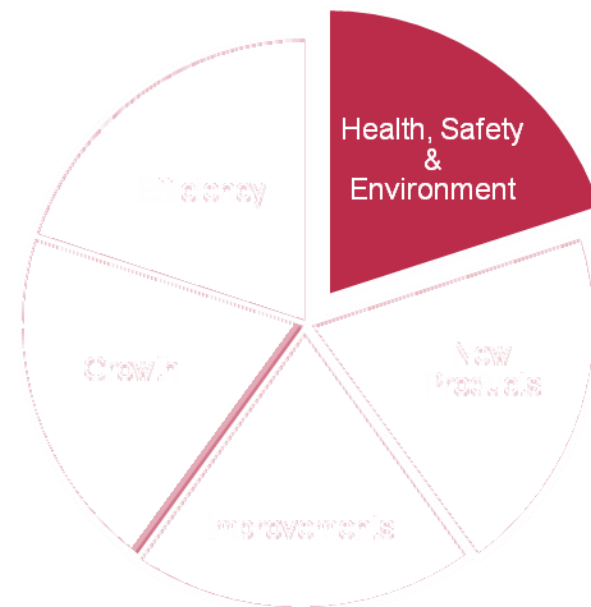


What keeps me up at night?

Net effect?

- Every dollar spent on compliance means...?
 - One less dollar available for growth

- Less capital for growth means...?
 - Financial health less certain
 - Existing jobs less secure
 - Fewer new domestic jobs created



What keeps me up at night?

The inevitable questions from management

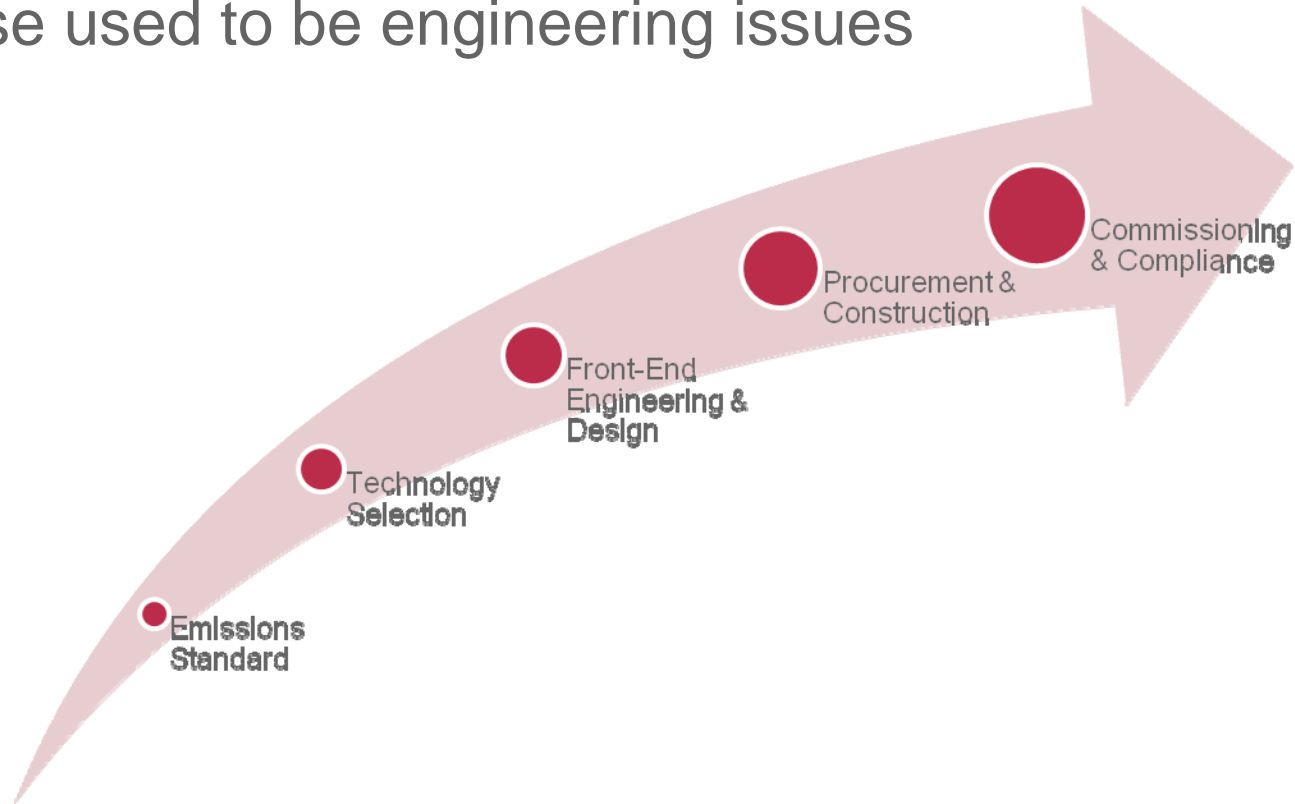
- The costs
 - Will it really cost that much?
 - Do we have to spend it now?

- The risks
 - Is there another way?
 - Will it work?

- The future
 - Are you going to come back for more?

What keeps me up at night?

- These used to be engineering issues



- But not any more...

What keeps me up at night?

The inevitable questions from management

■ The costs

- Will it really cost that much?
- Do we have to spend it now?

We're not sure...!

■ The risks

- Is there another way?
- Will it work?

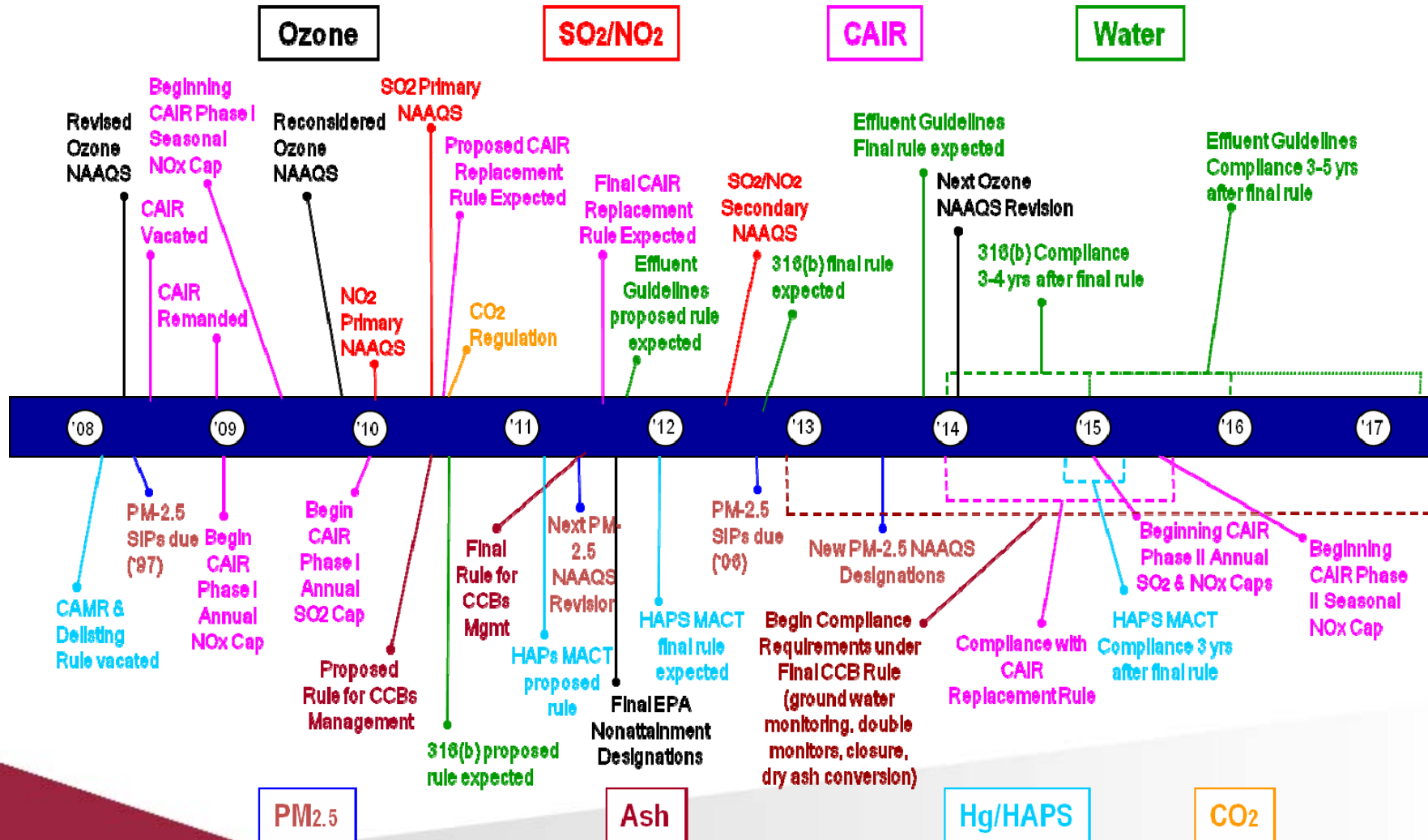
The new standards may not be achievable!!

■ The future

- Are you going to come back for more?

*Take a look, & tell me:
What do you think....?*

Possible Timeline for Environmental Regulatory Requirements for the Utility Industry



So what really keeps me up at night?

Asking my management to commit vast sums of scarce capital to comply with a rule I don't know how to meet...

Whose deadline is a moving target...

That doesn't allow enough time to execute once set in motion...

With full knowledge that more funding requests are coming.

At what point will my management say, "Enough" . . . ?