Combined income statement

For the year ended 31 December 2020, 2019, and 2018

(US$ millions)		2020			2019			2018		
	Note	Underlying performance	Special items	IFRS	Underlying performance	Special items	IFRS	Underlying performance	Special items	IFRS
Revenue	5	566.4	—	566.4	578.4	—	578.4	675.1	—	675.1
Operating profit before Special Items		33.1	—	33.1	50.0	—	50.0	97.6	—	97.6
Restructuring and site closure costs	4	—	(2.1)	(2.1)	—	(2.0)	(2.0)	—	(0.1)	(0.1)
Operating profit before share of joint venture		33.1	(2.1)	31.0	50.0	(2.0)	48.0	97.6	(0.1)	97.5
Share of joint ventures	13	2.4	—	2.4	0.6	—	0.6	2.1	—	2.1
Operating profit/(loss)	6	35.5	(2.1)	33.4	50.6	(2.0)	48.6	99.7	(0.1)	99.6
Finance costs	8	(0.2)	—	(0.2)	(0.3)	—	(0.3)	(0.4)	—	(0.4)
Profit/(loss) before taxation		35.3	(2.1)	33.2	50.3	(2.0)	48.3	99.3	(0.1)	99.2
Taxation	9	(6.3)	0.5	(5.8)	(7.9)	0.4	(7.5)	(14.6)	—	(14.6)
Profit/(loss) for the year		29.0	(1.6)	27.4	42.4	(1.6)	40.8	84.7	(0.1)	84.6

Combined statement of comprehensive income
for the years ended 31 December 2020, 2019, and 2018

(US$ millions)	Note	2020	2019	2018
Profit for the year		27.4	40.8	84.6
Items that may be reclassified to the income statement				
Exchange differences on translation of foreign operations		23.2	(4.0)	(11.0)
Unrealised (gain)/loss on cash flow hedges		(4.2)	(2.2)	7.2
Reclassification adjustment for (gains)/losses included in earnings		0.1	(1.2)	(6.5)
Income tax relating to these items		0.7	0.8	(0.3)
Other comprehensive income/(expense) for the year		19.8	(6.6)	(10.6)
Total comprehensive income for the year		47.2	34.2	74.0

Combined statement of changes in Invested Capital
for the years ended 31 December 2020, 2019, and 2018

(US$ millions)	Note	Total invested capital
At 1 January 2020		507.8
Profit for the year		27.4
Other comprehensive loss		19.8
Net transfer to parent	21	(1.8)
At 31 December 2020		553.2

(US$ millions)	Note	Total invested capital
At 1 January 2019		483.2
Profit for the year		40.8
Other comprehensive loss		(6.6)
Net transfer to parent	21	(9.6)
At 31 December 2019		507.8

(US$ millions)	Note	Total invested capital
At 1 January 2018		506.3
Profit for the year		84.6
Other comprehensive loss		(10.6)
Net transfer to parent	21	(97.1)
At 31 December 2018		483.2

Combined balance sheet
as at 31 December 2020, 2019, 2018 and 2017

(US$ millions)	Note	2020	2019	2018	2017 (unaudited)
Non-current assets					
Goodwill	11	77.1	75.5	75.9	76.7
Property, plant and equipment	12	316.7	294.7	269.1	273.2
Deferred tax assets	10	4.0	3.0	0.9	0.8
Investment in joint venture	13	26.5	21.9	21.6	28.1
Other non-current assets		3.5	3.1	4.8	4.8
Total non-current assets		**427.8**	**398.2**	**372.3**	**383.6**
Current assets					
Inventories	14	132.3	173.2	165.4	151.3
Trade and other receivables	15	96.6	41.2	51.5	68.1
Derivative financial instruments	15	—	1.3	4.5	5.6
Total current assets		**228.9**	**215.7**	**221.4**	**225.0**
Total assets		**656.7**	**613.9**	**593.7**	**608.6**
Current liabilities					
Trade and other payables	16	(53.4)	(60.6)	(65.6)	(54.5)
Lease liabilities	17	(1.7)	(1.7)	(1.6)	(1.6)
Current tax liabilities	9	(0.5)	(0.8)	(1.0)	—
Provisions for other liabilities and charges		(2.4)	(0.7)	(0.2)	(0.9)
Derivative financial instruments	15	(2.9)	(1.0)	(0.7)	(3.2)
Total current liabilities		**(60.9)**	**(64.8)**	**(69.1)**	**(60.2)**
Non-current liabilities					
Deferred tax liabilities	10	(37.3)	(35.0)	(34.5)	(34.0)
Lease liabilities	17	(2.9)	(3.8)	(5.0)	(6.6)
Provisions for other liabilities and charges		(0.4)	(0.7)	(0.9)	(1.0)
Other long-term liabilities		(2.0)	(1.8)	(1.0)	(0.5)
Total non-current liabilities		**(42.6)**	**(41.3)**	**(41.4)**	**(42.1)**
Total liabilities		**(103.5)**	**(106.1)**	**(110.5)**	**(102.3)**
Net assets		**553.2**	**507.8**	**483.2**	**506.3**
Equity					
Invested capital	21	553.2	507.8	483.2	506.3
Total invested capital		**553.2**	**507.8**	**483.2**	**506.3**

Combined cash flow statement
for the years ended 31 December 2020, 2019, and 2018

(US$ millions)	Note	2020		2019		2018	
Operating							
Cash generated from operations	19		42.7		73.4		129.5
Interest paid		—		(0.2)		(0.2)	
Interest element of lease payments	17	(0.2)		(0.2)		(0.2)	
Net interest paid			(0.2)		(0.4)		(0.4)
Corporate tax paid		(5.5)		(8.8)		(15.5)	
Total tax paid			(5.5)		(8.8)		(15.5)
Net cash inflow from operating activities			37.0		64.2		113.6
Investing							
Dividends received from joint ventures	13		—		—		7.5
Purchase of property, plant and equipment	12		(34.9)		(46.4)		(23.6)
Net capital expenditure			(34.9)		(46.4)		(23.6)
Net cash outflow from investing activities			(34.9)		(46.4)		(16.1)
Financing							
Repayment of principal portion of lease liabilities	17		(1.5)		(1.4)		(1.4)
Repayment of borrowings	16		—		(6.9)		—
Net transfer to Parent	21		(1.8)		(9.6)		(97.1)
Net cash outflow from financing activities			(3.3)		(17.9)		(98.5)
Increase in cash, cash equivalents and bank overdrafts during the year			(1.2)		(0.1)		(1.0)
Cash and cash equivalents at 1 January			—		—		—
Foreign exchange and other movements			1.2		0.1		1.0
Cash and cash equivalents at 31 December			—		—		—

Notes to the combined historical financial information
For the years ended 31 December 2020, 2019 and 2018

1. General information

This combined historical financial information reflect the Adhesive Technologies business ("**Adhesive Technologies**" or the "**Business**") of Eastman Chemical Company ("**Eastman**"). The Business is a global producer of specialty hydrocarbon, oleochemicals and rosin adhesive resins and dispersions for mainly hot-melt and pressure sensitive applications for the building and construction, hygiene products, packaging and tire industries. The Business maintains a global network of manufacturing facilities throughout the United States, Mexico, Europe and a joint venture site located in Nanjing, China.

The combined historical financial information is prepared in U.S. dollars (Millions), the functional currency of the Business. Foreign operations are included in accordance with the policies set out in note 2.

2 Significant accounting policies

Basis of accounting

This historical financial information has been derived from the consolidated financial statements and accounting records of Eastman. This historical financial information reflects the combined historical results of operations, financial position and cash flows of the Business for the periods presented as historically managed within Eastman.

As the Business has not historically constituted a separate legal entity or group, the combined historical financial information, which has been presented for the purpose of this document, has been prepared on a basis that combines the results, assets and liabilities of the Business by applying principles of consolidation as set out in International Financial Reporting Standards ("**IFRS**") 10—Consolidated Financial Statements. The combined historical financial information does not constitute statutory financial statements within the meaning of Section 434(3) of the Companies Act 2006.

For all periods up to and including the year ended 31 December 2020, the Business has prepared its financial statements in accordance with U.S. generally accepted accounting principles ("**U.S. GAAP**"). This combined historical financial information for the year ended 31 December 2020 is the first the Business has prepared in accordance with IFRS. The most significant impact on the Business' combined historical financial information was:

- the retrospective adoption of IFRS 16, *Leases* to be effective 31, December 2017 for IFRS reporting instead of 31, December 2018 for U.S. GAAP. There was no material impact to the Business' combined historical financial information as a result of this change.

This combined historical financial information has been prepared in accordance with International Accounting Standards in conformity with UK adopted International accounting standards, and IFRSs adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union. This combined historical financial information has been prepared on the historical cost basis, except for the revaluation of financial instruments that are measured at fair value at the end of each reporting period, as explained in the accounting policies below.

The Business has historically been managed as the Adhesive Technologies business unit group and the Tire Resins business unit, both included in the Additives & Functional Products ("AFP") reporting segment of Eastman, and is held in a combination of dedicated legal entities and comingled legal entities. Comingled legal entities include activities of both Eastman and the Business. Accordingly, the net investment of the parent ("**invested capital**") is presented in lieu of stockholder's equity. This combined historical financial information may not be indicative of the Business' future performance and do not necessarily reflect what the financial position, results of operations and cash flows would have been had it operated as an independent company during the periods presented.

All intracompany transactions have been eliminated. All transactions between the Business and Eastman have been included in this combined historical financial information. For those transactions between the Business and Eastman that are historically settled in cash, the Business has reflected such balances in the Combined Statements of Financial Position as due from related parties or due to

related parties until they are settled. The aggregate net effect of such transactions that are not historically settled in cash has been reflected in the Combined Statements of Financial Position as invested capital and in the Combined Statements of Cash Flows as a financing activity.

This combined historical financial information includes certain allocated expenses for corporate functions provided by Eastman to the Business, including but not limited to executive management, finance, legal, information systems, human resources and distribution, as well as research and development expenses that are required to support the Business as set out in note 21. Allocations were made primarily based on a percentage of revenues, salaries or headcount. Some corporate services such as information technology are charged to the Business based on usage. The Business believes the basis on which the expenses have been allocated is a reasonable reflection of the utilisation of services provided to, or the benefit received by, the Business during the periods presented. However, these allocations and estimates are not necessarily indicative of the costs and expenses that would have resulted if the Business had been operating as an independent company. Actual costs that may have been incurred if the Business had been an independent company would depend on several factors, including the organisational structure, whether functions were outsourced or performed by employees and strategic decisions made in areas such as information technology and infrastructure.

Going concern

The combined historical financial information has been prepared on a going concern basis and under the historical cost convention.

Goodwill

Goodwill is measured as the excess of the consideration transferred over the Business' interest in acquisition-date identifiable assets acquired less liabilities assumed.

Goodwill is not amortised but is reviewed for impairment at least annually. For the purpose of impairment testing, goodwill is allocated to the cash generating unit expected to benefit from the synergies of the combination. Cash generating unit to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss for goodwill is not reversed in a subsequent period.

On disposal of a subsidiary, associate or joint venture, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Joint ventures

Joint ventures are accounted for using the equity method of accounting. Under the equity method, interests in joint ventures are initially recognised at cost and adjusted thereafter to recognise the Business' share of the post-acquisition profits or losses and movements in other comprehensive income.

Revenue

General

The Business manufactures and sells adhesive resins and dispersions across a wide range of of end use applications. Its products are mainly sold in liquid form, in bulk containers.

Revenue is measured based on the consideration to which the Business expects to be entitled in a contract with a customer when performance obligations are satisfied. Revenue is recognised at the point in time when control of the product is transferred from the Business to the customer.

The Business sells to customers through master sales agreements or standalone purchase orders. The majority of the Business' terms of sale have a single performance obligation to transfer products. Accordingly, the Business recognises revenue when control has been transferred to the customer.

The timing of billings does not always match the timing of revenue recognition. When the Business is entitled to bill a customer in advance of the recognition of revenue, a contract liability is recognised.

When the Business is not entitled to bill a customer until a period after the related recognition of revenue, a contract asset is recognised. Contract assets represent the Business' right to consideration for the exchange of goods under a contract, but which are not yet billable to a customer for consignment inventory or pursuant to certain shipping terms.

Contract liabilities were not material as of 31 December 2020, 2019 or 2018. Contract assets were US$7.8 million, US$7.7 million and US$9.7 million as of 31 December 2020, 2019 and 2018, respectively, and are included as a component of "Trade and other receivables" in the Combined Balance Sheets.

Rebates and volume discounts

The business may grant customers rebates if the goods purchased by the customer exceed a contractually defined threshold within the specified period. Rebates are usually deducted from the amounts payable by the customer. Depending on the terms of the underlying contract, the Business uses either the expected value or the most likely amount to estimate the variable consideration for expected future rebates. Historical, current and forecast information is considered when calculating rebates.

The majority of rebate programmes are aligned with the Business' financial year end, providing certainty around how much should be recognised in the financial statements.

Variable consideration for volume incentive discounts is estimated and included in the transaction price at the time of sale.

Other

The Business does not have any contracts where the period between the transfer of promised goods to the customer and payment by the customer exceeds one year.

Foreign currencies

In preparing the financial statements of the Business, transactions in currencies other than the Business' functional currency are recognised at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary assets and liabilities carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences are recognised in profit or loss in the period in which they arise except for:

- exchange differences on transactions entered into to hedge certain foreign currency risks (see below under 'hedge accounting'); and
- exchange differences on monetary items receivable or payable to a foreign operation for which settlement is neither planned nor likely to occur in the foreseeable future (therefore forming part of the net investment in the foreign operation), which are recognised initially in other comprehensive income and reclassified from equity to profit or loss on disposal of the net investment.

On combination, the assets and liabilities of the Business' non-US$ operations are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising, if any, are recognised in other comprehensive income.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. The Business elected to treat goodwill and fair value adjustments arising on acquisitions before the date of transition to IFRS as U.S. dollar-denominated assets and liabilities.

Operating profit

Operating profit represents profit from continuing activities before financing costs and taxation.

Taxation

The tax expense represents the sum of the tax currently payable and deferred tax.

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit before tax as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Business' liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

A provision is recognised for those matters for which the tax determination is uncertain but it is considered probable that there will be a future outflow of funds to a tax authority. The provisions are measured at best estimate of the amount expected to become payable. The assessment is based on the judgement of tax professionals within the Company supported by previous experience in respect of such activities and in certain cases based on specialist independent tax advice.

Deferred tax

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Business is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to other comprehensive income, in which case the deferred tax is also dealt with in other comprehensive income.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Business expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

Leases

The Business assesses whether a contract is or contains a lease, at inception of the contract. The lease term is determined from the commencement date of the contract and covers the non-cancellable term. If considered reasonably certain, extension or termination options are included in the lease term.

At the commencement date, a lease liability is recognised, measured at the present value of the future lease payments and discounted using the Business' incremental borrowing rate. Subsequently, the lease liability is adjusted by increasing the carrying amount to reflect interest on the lease liability, reducing the carrying amount to reflect the lease payments made and remeasuring the carrying amount to reflect any reassessment or lease modifications.

At the commencement date, a right of use asset is recognised, measured at an amount equal to the lease liability plus any lease payments made before the commencement date and any initial direct costs, less any lease incentive payments. An estimate of costs to be incurred in restoring an asset, in

accordance with the terms of the lease, is also included in the right of use asset at initial recognition. Subsequently, right of use assets are measured in accordance with the accounting policy for property, plant and equipment and are depreciated over the shorter period of lease term and the useful life of the underlying asset. Any adjustments to the corresponding lease liability are reflected in the corresponding right of use asset.

Short-term leases and low value leases are not recognised as lease liabilities and right of use assets, but are recognised as an expense straight-line over the lease term.

Property, plant and equipment

Property, plant and equipment is stated at cost, less accumulated depreciation and any recognised impairment loss. Cost comprises original purchase price and the costs attributable to bringing the asset to its working condition for its intended use, including, where appropriate, capitalised finance costs.

Freehold land is not depreciated.

Depreciation is recognised so as to write-off the cost of assets less their residual values over their useful lives, using the straight-line method, on the following bases:

Freehold buildings	between 20 and 50 years
Plant and equipment	between 3 and 30 years
Computer software	between 3 and 5 years
Office furniture and fixtures and computer equipment	between 5 and 10 years
Vehicles, railcars and general machinery and equipment	between 5 and 20 years
Manufacturing-related improvements	between 20 and 33 years

Assets in the course of construction are carried at cost, less any recognised impairment loss. Finance costs directly attributable to the acquisition or construction of qualifying assets are capitalised as part of the cost of those assets. Depreciation of these assets commences when the assets are ready for their intended use.

The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

Impairment of property, plant and equipment and intangible assets excluding goodwill

The amount initially recognised for internally generated intangible assets is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognised, development expenditure is recognised as an expense in the period in which it is incurred.

At each balance sheet date, the Business reviews the carrying amounts of its plant, property and equipment and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Business estimates the recoverable amount of the cash generating unit to which the asset belongs.

The recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash generating unit) is reduced to its recoverable amount. An impairment loss is recognised in the income statement.

When an impairment loss subsequently reverses, the carrying amount of the asset (or cash generating unit) is increased to the revised estimate of its recoverable amount to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined

had no impairment loss been recognised in prior years. A reversal of an impairment loss is recognised immediately in the income statement.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is calculated using the weighted average method. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution. Provision is made for obsolete, slow-moving or defective items where appropriate.

Financial instruments

Financial assets and financial liabilities are recognised when the Business becomes a party to the contractual provisions of the instrument.

The business classifies its financial instruments (primarily cash flow hedges) in the following categories:

- financial assets and liabilities at amortised cost ("**AC**") includes trade and other receivables and trade and other payables; and
- financial assets and liabilities at fair value through profit and loss ("**FVTPL**"); and
- financial assets and liabilities at fair value through other comprehensive income ("**FVTOCI**") included cash flow hedges.

Financial assets and liabilities are initially measured at fair value including, where permitted, any directly attributable transaction costs.

All recognised financial assets are subsequently measured in their entirety at either amortised cost or fair value, depending on their classification.

Financial assets and liabilities measured at amortised cost

Financial assets measured at amortised cost include cash and cash equivalents and trade and other receivables. Cash and cash equivalents comprise cash held in bank accounts with no access restrictions and bank term deposits repayable on demand or maturing within three months of inception.

At each reporting date the Business recognises a loss allowance for expected credit losses on financial assets measured at amortised cost. In establishing the appropriate amount of loss allowance to be recognised, the Business applies the general approach or the simplified approach, depending on the nature of the underlying class of financial assets:

- The simplified approach is applied to the impairment assessment of trade and other receivables. Under this approach, the Business recognises expected lifetime losses upon initial recognition.

Financial liabilities measured at amortised cost include trade and other payables, lease liabilities and borrowings. Borrowings are measured at amortised cost unless they form part of a fair value hedge relationship. The difference between the initial carrying amount of borrowings and the redemption value is recognised in the income statement over the contractual terms using the effective interest rate method.

Financial assets and liabilities held at fair value

Financial assets and liabilities are measured at fair value through profit or loss when they do not meet the criteria to be measured at amortised cost or at fair value through other comprehensive income.

Financial assets and liabilities at FVTPL are measured at fair value at the end of each reporting period with fair value gains or losses recognised in profit or loss to the extent they are not part of a designated hedging relationship (see below).

Derivative financial instruments

The Business enters into a variety of derivative financial instruments to manage its exposure to foreign exchange rate risk, including foreign exchange forward contracts, and foreign currency options. Further details of derivative financial instruments are set out in note 15.

Derivatives are initially recognised at fair value at the date the derivative contracts are entered into and are subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or loss is recognised in the income statement immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in the income statement depends on the nature of the hedge relationship.

Hedge accounting

To mitigate foreign currency and commodity price risk, the Business designates certain derivatives as hedging instruments in fair value hedges, cash flow hedges, or hedges of net investments in foreign operations as appropriate.

At the inception of the hedge relationship, if hedge accounting is applied to a hedging instrument, the Business documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Business documents whether the hedging instrument is effective in offsetting changes in fair value or cash flows of the hedged item attributable to the hedged risk.

Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income, limited to the cumulative change in fair value of the hedged item from inception of the hedge.

Gains or losses relating to an ineffective portion are recognised immediately in the income statement.

Amounts previously recognised in other comprehensive income and accumulated in equity are reclassified in the income statement in the periods when the hedged item affects profit or loss, in the same line as the recognised hedged item. However, when the hedged forecast transaction results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously recognised in other comprehensive income and accumulated in equity are removed from equity and included in the initial measurement of the cost of the non-financial asset or non-financial liability.

Hedge accounting is discontinued when the Business revokes the hedging relationship, the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting. Any gain or loss accumulated at that time in equity is recognised when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss in equity is recognised immediately in profit or loss.

The Business recognises gains and losses related to foreign currency derivatives instruments in line item "Revenue" of the Combined income statement at spot rate.

Retirement benefit costs

Payments to defined contribution retirement benefit schemes are recognised as an expense when employees have rendered service entitling them to the contributions. Payments made to state-managed retirement benefit schemes and multi-employer defined benefit schemes are treated as payments to defined contribution schemes where the Business' obligations under the schemes are equivalent to those arising in a defined contribution scheme.

Provisions

Provisions are recognised when the Business has a present obligation (legal or constructive) as a result of a past event, it is probable that the Business will be required to settle that obligation and a reliable estimate can be made of the amount of the obligation. Provisions are measured as the best estimate of the expenditure required to settle the obligation at the balance sheet date and are discounted to present value where the effect is material.

Provisions for restructuring costs are recognised when the Business has a detailed formal plan for the restructuring that has been communicated to affected parties.

Alternative Performance Measures

The Business has consistently used two significant Alternative Performance Measures ("**APMs**") since its adoption of IFRS in 2018:

- Underlying performance, which excludes Special Items from IFRS profit measures.
- EBITDA, which excludes Special Items, amortisation and depreciation from IFRS operating profit.

Further information and the reconciliation to the IFRS measures are included in note 4.

Cash and Cash Equivalents

Eastman uses a centralised approach for managing cash and financing operations with its subsidiaries. Accordingly, a substantial portion of the Business' cash balances are transferred to Eastman's cash management accounts regularly by Eastman at its discretion and therefore are not included in the combined financial statements. Remaining cash that is not transferred to Eastman's cash management accounts is held in accounts that are not specifically identifiable to the Business. As such, cash and cash equivalents have not been reflected in the Business' Financial Position. Transfers of cash between the Business and Eastman are included within "invested capital" in the Combined Statement of Cash Flows and the Combined Statement of Invested Capital.

Accounts Receivable and Allowance for Credit Losses

Trade accounts receivable are recorded at the invoiced amount and do not bear interest. The Business maintains allowances for estimated credit losses, as described above under Financial Instruments. Allowances for credit losses were US$0.4 million, US$0.3 million and US$0.3 million as of 31 December 2020, 2019 and 2018, respectively. The Business does not enter into receivables of a long-term nature, also known as financing receivables, in the normal course of business.

Working Capital Management and Off Balance Sheet Arrangements

The Business has off balance sheet, uncommitted accounts receivable factoring agreements under which entire invoices may be sold, without recourse, to third-party financial institutions or a subsidiary of Eastman. Under these agreements, the Business sells the invoices at face value, less a transaction fee, which substantially equals the fair value with no gain or loss recognised and no credit loss exposure is retained. In addition, certain agreements also require that the Business continue to service, administer and collect the sold accounts receivable at market rates. The total amount of receivables sold during the years ended 31 December 2020, 2019 and 2018 were US$235.7 million, US$438.4 million and US$396.6 million, respectively. Based on the original terms of receivables sold for certain agreements and actual outstanding balance of receivables under service agreements, the Business estimates that US$1.8 million, US$56.9 million and US$61.8 million of these receivables would have been outstanding as of 31 December 2020, 2019 and 2018, respectively, had they not been sold under these factoring agreements. Total net fees associated with accounts receivable factoring agreements were US$0.5 million, US$0.9 million and US$0.9 million for the years ended 31 December 2020, 2019 and 2018, respectively, of which US$0.3 million, US$0.7 million and US$0.8 million for the years ended 31 December 2020, 2019 and 2018, respectively were related to accounts receivable factoring agreements with a subsidiary of Eastman.

De-recognition of factored accounts receivable

In determining whether to de-recognise accounts receivable that have been factored, the Business considers a) whether the assets being factored have similar characteristics, b) whether the rights to the assets' associated cash flows has expired, and c) whether there was a transfer of the rights to those cash flows to the factoring agent.

Critical accounting judgements and estimates

In the application of the Business' accounting policies, management is required to make judgements (other than those involving estimations) that have a significant impact on the amounts recognised and to make estimates and assumptions about the carrying amounts of assets and liabilities that are not

readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Key sources of estimation uncertainty

The key assumptions concerning the future, and other key sources of estimation uncertainty at the reporting date that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below. The assumptions for each estimate are set out in the relevant note referenced below.

- Valuation of goodwill and intangible assets on acquisition:

  In a business combination, intangible assets are identified and recognised at fair value. The assumptions involved in valuing these intangible assets require the use of estimates that may differ from the actual outcome. These estimates cover future growth rates, expected inflation rates and the discount rate used. Changing the assumptions selected by management could significantly affect the allocation of the purchase price paid between goodwill and other acquired intangibles.

- Current tax liability and deferred tax (notes 9 and 10):

  The Business annually incurs significant amounts of income taxes payable to various jurisdictions around the world and it also recognises significant changes in deferred tax assets and deferred tax liabilities, all of which are based on management's interpretations of applicable laws, regulations and relevant court decisions.

Critical judgements in applying the Group's accounting policies

There are no critical judgements, apart from those involving estimations (which are discussed above), that management has made in the process of applying the Business' accounting policies.

3 Adoption of new and revised standards

The following amendments to the accounting standards, issued by the IASB which have been endorsed by the EU, have been adopted by the Business from 1 January 2020 with no impact on the Business' combined results, financial position or disclosures:

Amendments to IFRS 9, IAS 39 and IFRS 7—Interest Rate Benchmark Reform (Phase 1). These amendments provide temporary relief from specific hedge accounting requirements to hedging relationships directly affected by inter-bank offered rate (IBOR) reform. The reliefs have the effect that IBOR reform should not generally cause hedge accounting to terminate. This and a number of other amendments and clarifications to IFRS, effective in future years, are not expected to significantly impact the Business' combined results or financial position.

4 Special Items

IFRS and Underlying performance

The IFRS profit measures show the performance of the Business as a whole and as such include all sources of income and expense, including both one-off items and those that do not relate to the Business' ongoing businesses. To provide additional clarity on the ongoing trading performance of the Business' businesses, management uses 'Underlying' performance as an alternative performance measure to plan for, control and assess the performance of the segments. Underlying performance differs from the IFRS measures as it excludes Special Items.

Special Items

Special Items are disclosed separately in order to provide a clearer indication of the Business' underlying performance.

Special Items are either irregular, and therefore including them in the assessment of a segment's performance would lead to a distortion of trends, or are technical adjustments which ensure the Business' financial statements are in compliance with IFRS but do not reflect the operating performance in the year, or both. An example of the latter is the amortisation of acquired intangibles, which principally relates to acquired customer relationships. The Business incurs costs, which are recognised as an expense in the income statement, in maintaining these customer relationships. The Business considers that the exclusion of the amortisation charge on acquired intangibles from Underlying performance avoids the potential double counting of such costs and therefore excludes it as a Special Item from Underlying performance.

The following are consistently disclosed separately as Special Items in order to provide a clearer indication of the Business' underlying performance:

a. Restructuring and site closure costs;

b. Sale of a business or significant asset;

c. Acquisition costs;

d. Amortisation of acquired intangible assets;

e. Impairment of non-current assets;

f. Fair value adjustments in respect of derivative financial instruments where hedge accounting is not applied;

g. Items of income and expense that are considered material, either by their size and/or nature;

h. Tax impact of above items; and

i. Settlement of prior period tax issues.

Special Items comprise:

(US$ millions)	2020	2019	2018
Restructuring and site closure costs	(2.1)	(2.0)	(0.1)

The Business records severance charges for employee separations when the separation is probable and reasonably estimable. In the event employees are required to perform future service, the Business records severance charges ratably over the remaining service period of those employees. Payments made in connection with severance charges were US$0.4 million, US$1.6 million and US$0.7 million for years ended 31 December 2020, 2019 and 2018, respectively.

5 Segmental analysis

The Business operates in one segment: the Additives & Functional Products segment.

There is one customer whose sales were more than 10% of the Business' revenue, at 13.5%, 11.8% and 11.9% in 2020, 2019 and 2018, respectively.

Geographical information

The Business' revenue from external customers and its non-current assets (excluding deferred tax) by geographical location are detailed below:

	Revenue by destination			Non-current assets		
(US$ millions)	2020	2019	2018	2020	2019	2018
United States and Canada	272.8	264.2	298.9	220.7	222.0	206.0
Asia Pacific	66.5	70.9	74.0	26.6	22.0	21.7
Europe, Middle East and Africa	198.6	211.9	266.6	177.1	151.0	141.5
Latin America	28.5	31.4	35.6	3.4	3.2	3.1
Total	566.4	578.4	675.1	427.8	398.2	372.3

6 Operating profit

(US$ millions)	2020	2019	2018
Revenue	566.4	578.4	675.1
Cost of sales (excluding depreciation)	(450.9)	(439.5)	(489.6)
Gross profit	115.5	138.9	185.5
Sales and marketing costs	(12.4)	(14.3)	(15.4)
Administrative expenses	(47.6)	(53.5)	(52.0)
Share of joint ventures	2.4	0.6	2.1
EBITDA	57.9	71.7	120.2
Depreciation and amortisation	(22.4)	(21.1)	(20.5)
Operating profit—Underlying performance	35.5	50.6	99.7
Special Items	(2.1)	(2.0)	(0.1)
Operating profit—IFRS	33.4	48.6	99.6

(US$ millions)	2020	2019	2018
Operating profit is stated after charging the following:			
Depreciation of property, plant and equipment	20.9	19.7	19.1
Depreciation of right of use assets	1.5	1.4	1.4
Research and development expenditure	18.0	21.9	18.1

Audit fees were paid by Eastman and not allocated to this combined historical financial information.

7 Staff costs

(US$ millions)	2020	2019	2018
The average monthly number of employees during the year by segment was:	594	607	618

(US$ millions)	2020	2019	2018
The aggregate remuneration of all employees comprised:			
Wages and salaries	53.7	53.2	53.0
Social security costs	10.0	10.2	10.5
Pension costs	6.3	5.4	5.3
Total staff costs	70.0	68.8	68.8

There are no directors forming part of this combined historical financial information and it is not possible to apportion the amount of allocated corporate expenses relating to director remuneration, therefore no amounts for director emolument have been disclosed.

8 Finance costs

(US$ millions)	2020	2019	2018
Interest payable on inter-company loans	—	0.1	0.2
Interest element of lease payments	0.2	0.2	0.2
Total finance costs	0.2	0.3	0.4

9 Taxation

(US$ millions)	2020	2019	2018
Current Tax			
Corporation tax	5.7	9.1	16.4
Deferred tax			
Origination and reversal of temporary differences	0.6	(1.2)	(1.8)
	6.3	7.9	14.6
Special Items			
Restructuring and site closure costs	(0.5)	(0.4)	—
Total tax on profit before taxation	5.8	7.5	14.6

US corporation tax is calculated at 22.4% (2019: 22.0% 2018: 21.7%) of the estimated assessable profit for the year. Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

Reconciliation of tax expense to profit before taxation

The differences between the total tax expense shown above and the amount calculated by applying the standard rate of U.S. corporation tax to the profit before tax is as follows.

(US$ millions)	2020	2019	2018
Profit before taxation	33.2	48.3	99.2
Tax on profit before taxation at applicable U.S. corporation tax rate 22.4% in 2020. 22.0% in 2019 and 21.7% in 2018	7.4	10.6	21.5
Effects of:			
Expenses not deductible for tax purposes	0.7	0.8	1.4
Tax incentives and items not subject to tax	(2.9)	(3.3)	(4.0)
Higher tax rates on overseas earnings	(1.8)	(2.0)	(1.0)
Other deferred tax asset not recognised less amounts now recognised	1.3	0.9	(1.5)
Effect of change of rate on deferred tax	1.1	0.5	(1.8)
Tax charge for year	5.8	7.5	14.6

Current tax liabilities

(US$ millions)	2020	2019	2018
Current tax liabilities	(0.5)	(0.8)	(1.0)

10 Deferred taxation

Deferred tax assets have been recognised in respect of all tax losses and other temporary differences giving rise to deferred tax assets to the extent that it is probable that these assets will be recovered.

The movements in deferred tax assets and liabilities are shown below.

Deferred tax liabilities

2020

(US$ millions)	Accelerated tax depreciation	Acquired goodwill	Other	Total
At 1 January	(30.0)	(3.7)	(1.3)	(35.0)
Credited/(charged) to income statement	(1.9)	(0.6)	0.2	(2.3)
At 31 December	(31.9)	(4.3)	(1.1)	(37.3)

Deferred tax assets

2020

(US$ millions)	Post employment obligations	Leases	Other	Total
At 1 January	0.3	1.2	1.5	3.0
Credited/(charged) to income statement	0.7	(0.1)	1.1	1.7
Credited/(charged) to other comprehensive income	—	—	(0.7)	(0.7)
At 31 December	1.0	1.1	1.9	4.0

Deferred tax liabilities

2019

(US$ millions)	Accelerated tax depreciation	Acquired goodwill	Other	Total
At 1 January	(29.1)	(3.5)	(1.9)	(34.5)
Credited/(charged) to income statement	(0.9)	(0.2)	0.6	(0.5)
At 31 December	(30.0)	(3.7)	(1.3)	(35.0)

Deferred tax assets

2019

(US$ millions)	Post employment obligations	Leases	Other	Total
At 1 January	—	—	0.9	0.9
Credited/(charged) to income statement	0.3	1.2	0.2	1.7
Credited/(charged) to other comprehensive income	—	—	0.4	0.4
At 31 December	0.3	1.2	1.5	3.0

Deferred tax liabilities

2018

(US$ millions)	Accelerated tax depreciation	Acquired goodwill	Other	Total
At 1 January	(29.0)	(4.3)	(0.7)	(34.0)
Credited/(charged) to income statement	(0.1)	0.8	(1.2)	(0.5)
Exchange adjustment	—	—	—	—
At 31 December	(29.1)	(3.5)	(1.9)	(34.5)

Deferred tax assets

2018

(US$ millions)	Post employment obligations	Leases	Other	Total
At 1 January	0.1	—	0.7	0.8
Credited/(charged) to income statement	(0.1)	—	2.4	2.3
Credited/(charged) to other comprehensive income	—	—	(2.2)	(2.2)
At 31 December	—	—	0.9	0.9

Deferred tax assets not recognised

The amounts of deferred tax not recognised at the balance sheet dates are as follows:

(US$ millions)	2020	2019	2018
Tax Losses	0.5	0.4	0.2
	0.5	0.4	0.2

Of the unrecognised tax losses set out above, these balances can be carried forward indefinitely.

11 Goodwill

Changes in the carrying amount of goodwill follow:

(US$ millions)	2020	2019	2018
Cost			
At 1 January	75.5	75.9	76.7
Exchange adjustments	1.6	(0.4)	(0.8)
At 31 December	**77.1**	**75.5**	**75.9**

The Business tests goodwill annually for impairment, or more frequently if there are indicators that goodwill might be impaired.

The recoverable amounts for cash generating units ("**CGUs**") are determined from value in use calculations. The key assumptions for the value in use calculations are the discount rate, profitability and growth rate. These assumptions have been revised in the year in light of the current economic environment.

Management estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the Business. The discount rate is based on Eastman's weighted average cost of capital adjusted, where appropriate, for the risk premium attributable to a particular CGU's activities and geography of operation.

The Business prepares cash flow forecasts derived from the most recent business plans approved by management using growth rates that do not exceed average long-term growth rates for relevant markets.

The Business believes that there is no reasonably possible change in the key assumptions on which the recoverable amount is based that would cause the aggregate carrying amount to exceed the aggregate recoverable amount of the CGU.

12 Property, plant and equipment

The following tables reflect movements in property, plant and equipment for the years ended 2020, 2019 and 2018:

(US$ millions)	Freehold land and buildings	Leasehold land and buildings	Plant and equipment	Assets under construction	Total
Cost					
At 1 January 2020	14.9	37.3	540.7	43.8	636.7
Exchange adjustments	1.1	1.4	16.7	0.8	20.0
Additions	—	—	4.6	30.3	34.9
Disposals	—	(0.3)	(1.7)	—	(2.0)
Transfer from assets under construction	—	9.3	33.4	(42.7)	—
At 31 December 2020	16.0	47.7	593.7	32.2	689.6
Accumulated depreciation					
At 1 January 2020	—	(18.1)	(323.9)	—	(342.0)
Exchange adjustments	—	(0.5)	(9.8)	—	(10.3)
Depreciation charge for the year	—	(1.0)	(21.4)	—	(22.4)
Disposals	—	0.3	1.5	—	1.8
At 31 December 2020	—	(19.3)	(353.6)	—	(372.9)
Net book value At 31 December 2020	16.0	28.4	240.1	32.2	316.7

(US$ millions)	Owned Assets				
	Freehold land and buildings	Leasehold land and buildings	Plant and equipment	Assets under construction	Total
Cost					
At 1 January 2019	15.1	37.0	533.5	12.2	597.8
Exchange adjustments	(0.2)	(0.3)	(3.4)	3.5	(0.4)
Additions	—	—	—	46.4	46.4
Disposals	—	(0.6)	(6.5)	—	(7.1)
Transfer from assets under construction	—	1.2	17.1	(18.3)	—
At 31 December 2019	14.9	37.3	540.7	43.8	636.7
Accumulated depreciation					
At 1 January 2019	—	(17.5)	(311.2)	—	(328.7)
Exchange adjustments	—	0.1	1.9	—	2.0
Depreciation charge for the year	—	(1.0)	(20.1)	—	(21.1)
Assets written down	—	0.3	5.5	—	5.8
At 31 December 2019	—	(18.1)	(323.9)	—	(342.0)
Net book value At 31 December 2019	14.9	19.2	216.8	43.8	294.7

(US$ millions)	Owned Assets				
	Freehold land and buildings	Leasehold land and buildings	Plant and equipment	Assets under construction	Total
Cost					
At 1 January 2018	15.7	36.6	517.1	17.6	587.0
Recognised on adoption of IFRS 16	—	—	—	—	—
Exchange adjustments	(0.6)	(0.9)	(9.1)	(0.2)	(10.8)
Additions	—	0.3	0.6	22.7	23.6
Disposals	—	(0.1)	(1.9)	—	(2.0)
Transfer from assets under construction	—	1.1	26.8	(27.9)	—
At 31 December 2018	15.1	37.0	533.5	12.2	597.8
Accumulated depreciation					—
At 1 January 2018	—	(16.8)	(297.2)	—	(314.0)
Exchange adjustments	—	0.2	4.3	—	4.5
Depreciation charge for the year	—	(1.0)	(19.5)	—	(20.5)
Disposals	—	0.1	1.2	—	1.3
At 31 December 2018	—	(17.5)	(311.2)	—	(328.7)
Net book value At 31 December 2018	15.1	19.5	222.3	12.2	269.1

Depreciation expense was US$22.4 million, US$21.1 million and US$20.5 million for 2020, 2019 and 2018, respectively.

At 31 December 2020 the business had entered into contractual commitments for the acquisition of property, plant and equipment amounting to US$2.0 million (2019: US$2.0 million).

13 Investment in joint ventures

The Business owns a 50 percent interest in Nanjing Yangzi Eastman Chemical Ltd., a joint venture that has a manufacturing facility in Nanjing, China. The Nanjing facility produces Eastotac™ hydrocarbon tackifying resins for pressure-sensitive adhesives, caulks and sealants. At 31 December 2020, 2019 and 2018, the Business' investment in this joint venture was US$26.5 million, US$21.9 million, and US$21.6 million respectively. This joint venture is accounted for using the equity method in these financial statements.

Summarised financial information in respect of the joint venture is set out below.

Summarised balance sheet (100%)

(US$ millions)	2020	2019	2018
Non-current assets	12.1	9.6	10.7
Cash and cash equivalents	20.6	10.9	7.0
Other current assets	30.7	25.9	27.8
Total current assets	51.3	36.8	34.8
Other current liabilities	(10.4)	(2.6)	(2.3)
Total current liabilities	(10.4)	(2.6)	(2.3)
Net assets	53.0	43.8	43.2
Business' share of net assets	26.5	21.9	21.6

Summarised statement of comprehensive income (100%)

(US$ millions)	2020	2019	2018
Revenue	52.0	52.4	65.5
Operating profit	6.4	1.5	4.8
Interest	—	0.1	0.8
Taxation	(1.6)	(0.4)	(1.4)
Profit for the year	4.8	1.2	4.2
Total comprehensive income	4.8	1.2	4.2
Dividends paid	—	—	(15.0)
Movement in retained earnings	4.8	1.2	(10.8)
Business' share:			
Profit for the year	2.4	0.6	2.1
Dividends paid	—	—	(7.5)

The following table reconciles the summary information above to the carrying amount of the Group's interest in the joint ventures:

Investment in joint ventures

(US$ millions)	2020	2019	2018
At 1 January	21.9	21.6	28.1
Profit from continuing operations	2.4	0.6	2.1
Exchange differences on translation	2.2	(0.3)	(1.1)
Dividend paid	—	—	(7.5)
At 31 December	26.5	21.9	21.6

14 Inventories

(US$ millions)	2020	2019	2018
Finished goods	76.7	118.7	121.9
Raw materials and supplies	47.4	46.5	36.1
Total direct inventories at FIFO and average cost	124.1	165.2	158.0
Consumables	8.2	8.0	7.4
Total inventories	132.3	173.2	165.4

Cost of inventory recognised as an expense and included in cost of sales amounted to $427.9m, $418.7m and $473.8m for 2020, 2019 and 2018 respectively.

15 Financial instruments

The below sets out the Business' accounting classification of each class of financial assets and liabilities:

31 December, 2020 (US$ millions)	Carrying amount	Carrying amount within scope of IFRS 7	Valuation category in accordance with IFRS 9	Fair value	Fair value hierarchy level
Trade receivables	96.6	96.6	AC	96.6	Level 2
Total assets	96.6	96.6		96.6	
Trade and other payables	(53.4)	(53.4)	AC	(53.4)	Level 2
Derivatives- cash flow accounting	(2.9)	(2.9)	FVOCI	(2.9)	Level 2
Total liabilities	(56.3)	(56.3)		(56.3)	

31 December, 2019 (US$ millions)	Carrying amount	Carrying amount within scope of IFRS 7	Valuation category in accordance with IFRS 9	Fair value	Fair value hierarchy level
Trade receivables	41.2	41.2	AC	41.2	Level 2
Cash and cash equivalents	—	—	AC	—	Level 2
Derivatives- cash flow accounting	1.3	1.3	FVTPL	1.3	Level 2
Total assets	42.5	42.5		42.5	
Borrowings			AC		Level 2
Trade and other payables	(60.6)	(60.6)	AC	(60.6)	Level 2
Derivatives- cash flow accounting	(1.0)	(1.0)	FVOCI	(1.0)	Level 2
Total liabilities	(61.6)	(61.6)		(61.6)	

31 December, 2018 (US$ millions)	Carrying amount	Carrying amount within scope of IFRS 7	Valuation category in accordance with IFRS 9	Fair value	Fair value hierarchy level
Trade receivables	51.5	51.5	AC	51.5	Level 2
Cash and cash equivalents	—	—	AC	—	Level 2
Derivatives- cash flow accounting	4.5	4.5	FVTPL	4.5	Level 2
Total assets	56.0	56.0		56.0	
Borrowings			AC		Level 2
Trade and other payables	(65.6)	(65.6)	AC	(65.6)	Level 2
Derivatives- cash flow accounting	(0.7)	(0.7)	FVOCI	(0.7)	Level 2
Total liabilities	(66.3)	(66.3)		(66.3)	

Note:

1. AC: amortised cost; FVTOCI: fair value through other comprehensive income; FVTPL: fair value through profit or loss; a more detailed description of the categories can be found in note

The carrying value of the non-current receivable/payable appropriate their fair value because of their short term nature.

Financial risk management

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

Currency risk

The Business presents its combined financial statements in U.S. Dollar and conducts business in many currencies. As a result, it is subject to foreign currency risk due to exchange rate movements, which will affect the Business' transactions and the translation of the results and underlying net assets of its operations.

The Business uses currency option and forward cash flow hedges to hedge probable anticipated, but not yet committed, export sales and purchase transactions expected within a rolling three year period and denominated in foreign currencies (principally the euro). Additionally, the Business, from time to time, enters into forward exchange contract cash flow hedges to hedge certain firm commitments denominated in foreign currencies.

Commodity Risk

The Business uses certain raw material and energy sources which are subject to price volatility caused by weather, supply and demand conditions, economic variables and other unpredictable factors. This volatility is primarily related to the market pricing of propane, ethane, natural gas, paraxylene, ethylene, and benzene. In order to mitigate expected fluctuations in market prices, from time to time, the Business enters into option and forward contracts and designates these contracts as cash flow hedges. The Business currently hedges commodity price risks using derivative financial instrument transactions within a rolling three year period.

Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Business. Credit risk arises on cash balances, derivative financial instruments and credit exposures to customers.

The carrying amount of financial assets represents the Business' exposure to credit risk at the balance sheet date as disclosed at the start of this note. A financial asset is in default when the counterparty fails to pay its contractual obligations. Financial assets are written-off when there is no reasonable expectation of recovery. Credit risk is managed separately for financial and business-related credit exposures.

Financial credit risk

The Business aims to minimise its financial credit risk through the application of risk management policies. Counterparties are predominantly limited to major banks and financial institutions with a credit rating of investment grade and the policy restricts the exposure to any one counterparty by setting credit limits. The Business' policy is designed to ensure that individual counterparty limits are adhered to and that there are no significant concentrations of credit risk. The Business annually reviews the credit limits applied and regularly monitors the counterparties' credit quality, reflecting market credit conditions.

Business related credit risk

Trade and other receivables exposures are managed locally in the operating units where they arise and active risk management is applied, focusing on country risk, credit limits, ongoing credit evaluation and monitoring procedures.

Liquidity risk

Liquidity risk is the risk that the Business is unable to meet its payment obligations when due, or that it is unable, on an ongoing basis, to borrow funds at an acceptable price to fund actual or proposed commitments. The Business manages liquidity risk by maintaining adequate reserves by continuously monitoring forecast and actual cash flows, and by matching the maturity profiles of assets and liabilities.

(US$ millions)	2020 Amount due within 1 year	2020 Amount due between 2 and 5 years	2020 Amount due after 5 years	2019 Amount due within 1 year	2019 Amount due between 2 and 5 years	2019 Amount due after 5 years	2018 Amount due within 1 year	2018 Amount due between 2 and 5 years	2018 Amount due after 5 years
Trade and other payables	(53.4)	—	—	(60.6)	—	—	(65.6)	—	—
Lease liabilities	(1.7)	(3.6)	(0.3)	(1.7)	(4.5)	(0.6)	(1.9)	(5.4)	(0.8)
Provisions for other liabilities and charges	(2.4)	—	(0.4)	(0.7)	—	(0.7)	(0.2)	—	(0.9)
Total financial liabilities	(57.5)	(3.6)	(0.7)	(63.0)	(4.5)	(1.3)	(67.7)	(5.4)	(1.7)

Fair value measurement

Certain of the Business' financial instruments are held at fair value. The fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the balance sheet date.

As prescribed by IFRS 13 Fair Value Measurement, fair values are measured using a hierarchy where the inputs are as follows:

a. Level 1—quoted prices in active markets for identical assets or liabilities.

b. Level 2—not level 1 but are observable for that asset or liability either directly or indirectly.

c. Level 3—not based on observable market data.

The Business' commodity and foreign exchange contracts are valued using discounted cash flow techniques. These techniques incorporate inputs such as foreign exchange rates, which are used in a discounted cash flow calculation incorporating the instrument's term, notional amount and discount rate, and taking credit risk into account. As significant inputs to the valuation are observable in active markets, all of the Business' financial instruments are classified as level 2 financial instruments.

The fair value of forward foreign exchange contracts and currency swaps is estimated by discounting the future contractual cash flows using forward exchange rates and prices at the balance sheet date.

The fair value of commodity contracts is derived using forward curves supplied by an industry recognised and unrelated third party.

There were no transfers of any financial instrument between the levels of the fair value hierarchy during the current or prior years.

The following table presents the fair value measurements of hedging instruments on a gross basis:

(US$ millions)	31 December 2020	31 December 2019	31 December 2018
Derivative Type			
Derivatives designated as cash flow hedges:			
Current assets			
Foreign exchange contracts	—	1.3	4.5
Total derivative assets	—	1.3	4.5
Current liabilities			
Commodity contracts	—	(1.0)	—
Foreign exchange contracts	(2.9)	—	(0.7)
Total derivative liabilities	(2.9)	(1.0)	(0.7)
Total net derivative assets (liabilities)	(2.9)	0.3	3.8

Hedge relationships

The Business targets a one-to-one hedge ratio. Strengths of the economic relationship between the hedged item and the hedging instrument is analysed on an ongoing basis. Ineffectiveness can arise from subsequent change in the forecast transactions as a result of timing, cash flows or value except

when the critical terms of the hedging instrument and hedged item are closely aligned. The change in the credit risk of the hedging instruments or the hedged items is not expected to be the primary factor in the economic relationship.

The notional amounts, contractual maturities and rates of the hedging instruments designated in hedging relationships as of 31 December 2020 and 2019 by the main risk categories are as follows:

	Hedge Risk	Notional Amount	Maturity
2020			
Cash flow Hedges			
Foreign exchange forward and option contracts EUR/USD (in EUR'm)	Currency	€47	2021-2024
Commodity Forward and Collar contracts Energy (in million British thermal units)	Energy	1	2021-2024
2019			
Cash flow hedges			
Foreign exchange forward and option contracts EUR/USD (in EUR'm)	Currency	€50	2020-2023
Commodity Forward and Collar contracts Energy (in million British thermal units)	Energy	1	2020-2023
2018			
Cash flow hedges			
Foreign exchange forward and option contracts EUR/USD (in EUR'm)	Currency	€60	2019-2022
Commodity Forward and Collar contracts Energy (in million British thermal units)	Energy	2	2019-2022

Where hedge accounting is applied, hedges are documented and tested for effectiveness on an ongoing basis.

Commodity contracts are primarily used to offset variability in future prices of natural gas used in the Business' manufacturing process. Foreign exchange forwards are primarily used to hedge probable anticipated, but not yet committed, export sales and purchase transactions expected within a rolling three year period and denominated in foreign currencies (principally the euro). The change in fair value of the hedge instrument is recognised in Invested Capital located in the Consolidated Balance Sheets and reclassified into earnings in the same period or periods during which the hedged transaction affects earnings.

The ratio for hedging instruments designated in cash flow hedge relationships was 1:1. Ineffectiveness could occur on either hedging relationship due to significant changes in counterparty credit risk or a reduction in the notional amount of the hedged item during the designated hedging period.

16 Trade and other payables

(US$ millions)	2020	2019	2018
Trade creditors	(46.0)	(54.8)	(49.4)
Accrued payrolls, vacation and variable-incentive compensation	(5.9)	(4.1)	(4.9)
Related party payable	—	—	(6.9)
Other	(1.5)	(1.7)	(4.4)
Total payables and other current liabilities	(53.4)	(60.6)	(65.6)

Average trade payable days in 2020 was 43.2 (2019: 50.3, 2018: 48.9). This figure represents trade payable days for all trading operations calculated as a weighted average based on cost of sales.

The company considers that the carrying amount of trade payables, other payables and accruals approximates to their fair value.

17 Leases and other commitments

Leases have associated right-to-use assets and lease liabilities that are valued at the present value of the lease payments and recognised on the Statements of Financial Position. The discount rate used in

the measurement of a right-to-use asset and lease liability is the rate implicit in the lease whenever that rate is readily determinable. If the rate implicit in the lease is not readily determinable, the Business' incremental borrowing rate is used. The Business elected the accounting policy not to apply the recognition and measurement requirements to short-term leases with a term of 12 months or less that do not include a bargain purchase option.

The Business has leases, as a lessee, with customary terms that do not include: significant variable lease payments; significant reasonably certain extensions or options required to be included in the lease term; restrictions; or other covenants for real property, rolling stock and machinery and equipment. Real property leases primarily consist of office space and rolling stock leases primarily for railcars and fleet vehicles. As of 31 December 2020, 2019, and 2018, operating right-to-use assets of US$4.6 million, US$5.5 million, and US$6.6 million, respectively, are included as a part of "Property, plant and equipment" in the Combined Statements of Financial Position.

The total cash outflow for leases in the year was:

(US$ millions)	2020	2019	2018
Payment for the principal portion of lease liabilities	1.5	1.4	1.4
Payment for the interest portion of lease liabilities	0.2	0.2	0.2

The following table details the maturity of contractual undiscounted cash flows for lease liabilities:

(US$ millions)	2020	2019	2018
Less than one year	1.7	1.7	1.9
Two to five years	3.6	4.5	5.4
Beyond five years	0.3	0.6	0.8
Total	**5.6**	**6.8**	**8.1**

The Business has leases, primarily leases for railcars, which require the Business to guarantee a portion of the residual value of the leased assets upon termination of the leases that will expire beginning in 2021. Residual guarantee payments that become probable and estimable are recognised as rent expense over the remaining life of the applicable lease. Management's current expectation is that the likelihood of material residual guarantee payments is remote.

18 Retirement plans

Defined Contribution Plans

Certain of the Business' employees participate in defined contribution plans sponsored by Eastman. The Business recognises an expense reflecting the contributions due to employees directly involved with the Business from their participation in Eastman's defined contribution plans. Charges for the Business' participation in Eastman's defined contribution plans were US$0.6 million, US$0.5 million and US$0.4 million for the years ended 31 December 2020, 2019 and 2018, respectively.

Defined Benefit Pension Plans and Other Postretirement Benefit Plans

Certain of the Business' employees participate in defined benefit pension and other postretirement benefit plans sponsored by Eastman. For purposes of the combined financial statements, the Business accounts for its participation in these shared plans in accordance with the guidance on multi-employer benefit plans. Because of the nature of multi-employer pension plans, there are risks associated with participating in such plans that differ from single-employer pension plans. As a participant in these multi-employer benefit plans, the Business recognises an expense reflecting the service cost for employees directly involved with the Business. The Business does not recognise any employee benefit plan assets or liabilities for these shared plans in the accompanying Combined Statement of Financial Position. Total service costs recognised for the Business' participation in these shared plans were US$5.7 million, US$4.9 million and US$4.9 million for the years ended 31 December 2020, 2019 and 2018, respectively.

19 Reconciliation of operating profit to cash generated from operations

(US$ millions)	2020	2019	2018
Operating profit—continuing operations	**33.4**	**48.6**	**99.6**
Less: share of profits of joint ventures	(2.4)	(0.6)	(2.1)
Adjustments for:			
Depreciation of property, plant and equipment	22.4	21.1	20.5
Loss on disposal of assets	0.6	0.9	0.9
Special Items	2.1	2.0	0.1
Cash impact of restructuring and site closure	(0.4)	(1.6)	(0.7)
Movement in working capital	(13.0)	3.0	11.2
Cash generated from operations	**42.7**	**73.4**	**129.5**
Reconciliation of movement in working capital			
Decrease/(increase) in inventories	43.7	(10.0)	(15.0)
Decrease/(increase) in trade and other receivables	(53.6)	11.5	16.4
Increase/ (decrease) in trade and other payables	(3.1)	1.5	9.8
Movement in working capital	(13.0)	3.0	11.2

20 Provisions for other liabilities and charges

(US$ millions)	Environmental reserve	Restructuring	Total
At 1 January 2018	(1.0)	(0.9)	(1.9)
Charged to the income statement	—	(0.1)	(0.1)
Utilised during the year	0.1	0.8	0.9
At 31 December 2018	(0.9)	(0.2)	(1.1)

(US$ millions)	Environmental reserve	Restructuring	Total
At 1 January 2019	(0.9)	(0.2)	(1.1)
Charged to the income statement	—	(2.1)	(2.1)
Utilised during the year	0.2	1.6	1.8
At 31 December 2019	(0.7)	(0.7)	(1.4)

(US$ millions)	Environmental reserve	Restructuring	Total
At 1 January 2020	(0.7)	(0.7)	(1.4)
Charged to the income statement	—	(2.1)	(2.1)
Utilised during the year	0.3	0.4	0.7
At 31 December 2020	(0.4)	(2.4)	(2.8)

21 Related party transactions and parent net investment

This combined historical financial information has been prepared as historically managed within Eastman and are derived from the consolidated financial statements and accounting records of Eastman. The following discussion summarises activity between the Business and Eastman.

Allocation of corporate expenses

The Combined Statement of Comprehensive Income (Loss) includes expenses for certain centralised functions and other programs provided and administered by Eastman, as described in Note 1, “Description of Business and Basis of Presentation”. Costs for such services were as follows:

(US$ millions)	2020	2019	2018
Selling, general and administrative	10.7	10.4	9.6
Research and development	5.0	8.4	3.8
Total allocated operating expenses	**15.7**	**18.8**	**13.4**

Allocated research and development expenses relate primarily to process innovation projects that support significant chemistry changes and major equipment designs intended to result in new manufacturing processes for existing products.

Related Party Sales and Purchases

During the years ended 31 December 2020, 2019 and 2018, the Business' sales to Eastman were immaterial. The Business purchased inventory from Eastman totalling US$28.6 million, US$30.0 million, and US$46.1 million for the years ended 31 December 2020, 2019 and 2018, respectively. As of 31 December 2020, 2019 and 2018, the aggregate amounts of inventories purchased from Eastman that remained on the Business' Combined Statement of Financial Position were US$1.4 million, US$1.6 million and US$0.8 million respectively.

Related Party Accounts Receivable

Certain intercompany balances between the Business and Eastman primarily related to cash pooling and general financing activities are included within Parent net investment in the Combined Statement of Financial Position when the intercompany balances are not historically settled in cash.

Certain intercompany transactions with Eastman have historically been settled in cash and, therefore, the related intercompany balances are included in the Combined Statement of Financial Position as "Other noncurrent assets" and amounted to US$2.9 million, US$2.6 million and US$4.4 million as of 31 December 2020, 2019 and 2018, respectively.

Related Party Debt and Interest

The Business enters into various intercompany loan agreements with Eastman and its subsidiaries, both as a borrower and a lender, to fund its operations and Eastman's subsidiaries. The Business had an outstanding intercompany loan payable balance of US$6.9 million as of 31 December 2018 which was settled during the year ended 31 December 2019. As of 31 December 2020 and 2019, the Business did not have any outstanding intercompany loan receivables or payables. Interest expense related to the related party payables was US$0.1 million and US$0.2 million for years ended 31 December, 2019 and 2018, respectively.

Intercompany loan agreements with indefinite repayment terms are included in the Combined Statement of Financial Position as Parent Net Investment.

Key management Personnel Compensation

There are no key management personnel forming part of this combined historical financial information and it is not possible to apportion the amount of allocated corporate expenses relating to key management, therefore no amounts for key management personnel compensation have been disclosed.

Invested Capital

The net transfers to the Parent are included within invested capital on the Combined Statement of Changes in invested capital. The components of the transfers to Parent during the years ended 31 December 2020, 2019 and 2018 were as follows:

(US$ millions)	2020	2019	2018
Cash pooling and general financing activities	4.8	1.0	(79.2)
Corporate allocations	15.7	18.8	13.4
Purchases from Parent	(28.6)	(30.0)	(46.1)
Provision for income taxes	6.3	7.5	14.8
Repayment of borrowings	—	(6.9)	—
Total net transfers to Parent	(1.8)	(9.6)	(97.1)