

ANNUAL REPORT

For the years ended December 31, 2020 and 2019

(Amounts in millions of U.S. dollars)

The Netherlands

**(State or other jurisdiction of
incorporation or organization)**

Eagle Super Global Holding B.V.
and subsidiaries

Eagle Intermediate Global Holding B.V.
d/b/a The LYCRA Company

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The LYCRA Company
Certain References
(Amounts in millions of U.S. dollars)

Unless otherwise indicated or the context otherwise requires, references in this annual report to:

- “2003 Purchase Agreement” means that certain purchase agreement by and among E. I. du Pont de Nemours and the Company, the other global sellers identified therein, KED Fiber Ltd. and KED Fiber, LLC, dated as of November 16, 2003.
- “A&AT” means A&AT LLC, a Delaware limited liability company, now known as The LYCRA Company LLC.
- “Acquisition” means the purchase pursuant to the Acquisition Agreement by the U.S. Buyer and the Dutch Buyer of the entire issued share capital and limited liability company interests of the Company.
- “Acquisition Agreement” means the sale and purchase agreement entered into with, among others, INVISTA on October 27, 2017 pursuant to which the U.S. Buyer and the Dutch Buyer agreed to purchase the entire issued share capital and limited liability company interests of the Company, as amended and/or restated from time to time, including on March 28, 2018, December 21, 2018, January 31, 2019, and April 26, 2019.
- “Acquisition Closing Date” means January 31, 2019.
- “Agreed Security Principles” has the meaning set forth in the Indenture.
- “Arteva” means Arteva Global Holdings B.V., a private company with limited liability (*besloten vennootschap met beperkte aansprakelijkheid*) incorporated under the laws of the Netherlands with corporate seat in Amsterdam and registered with the Dutch chamber of commerce under number 34105868, now known as The LYCRA Company Global Holdings B.V.
- “ASC 606” means ASU 2014-09, Revenue from Contracts with Customers (Topic 606) as the FASB issued in May 2014.
- “BDO” means butanediol, a chemical compound used in the production of certain of our products.
- “Collateral” means, subject to the Agreed Security Principles, substantially all of the material assets of each Guarantor.
- “Company” means, together, A&AT and Arteva.
- “COVID-19” means the novel strain of coronavirus characterized by the World Health Organization in March 2020 as a pandemic.
- “Dollar Notes” mean \$690 aggregate principal amount of 7.500% Senior Secured Notes due 2025.
- “Dutch Buyer” means Eagle Global Holding B.V., a private company with limited liability (*besloten vennootschap met beperkte aansprakelijkheid*) incorporated under the laws of the Netherlands.
- “Dutch Co-Issuer” means Eagle Intermediate Global Holding B.V., a private company with limited liability (*besloten vennootschap met beperkte aansprakelijkheid*) incorporated under the laws of the Netherlands with corporate seat in Amsterdam and registered with the Dutch chamber of commerce under number 71303006.
- “Euro Notes” mean €250 aggregate principal amount of 5.375% Senior Secured Notes due 2023.
- “GAAP” refers to generally accepted accounting principles in the United States of America.
- “Guarantees” refers to the guarantees of the Issuers’ obligations under the Indenture and the Notes by the Guarantors.
- “Guarantors” refers to the guarantor entities party to the Indenture as of the date hereof and any other existing and future subsidiaries of the Dutch Co-Issuer that become guarantors of the Notes in accordance with the Indenture, and each a “Guarantor.”

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(Amounts in millions of U.S. dollars)

- “Indenture” means the Indenture dated May 4, 2018, by and among Eagle Intermediate Global Holding B.V. and Ruyi US Finance LLC, as Issuers, Eagle Super Global Holding B.V., as Parent, Wilmington Trust, National Association, as trustee (the “Trustee”) and Initial Paying Agent, Registrar and Transfer Agent in respect of Dollar Notes, Deutsche Bank AG, London Branch, as Initial Paying Agent and Transfer Agent in respect of Euro Notes, Deutsche Bank Luxembourg SA, as Authenticating Agent and Registrar in respect of Euro Notes and Wilmington Trust (London) Limited, as Security Agent, as amended and/or supplemented from time to time.
- “Intercreditor Agreement” means the Intercreditor Agreement dated May 4, 2018, among the lenders and agent under the Revolving Credit Facility Agreement, the Trustee, the Security Agent as well as certain hedging counterparties, as amended, restated, and supplemented to date.
- “INVISTA” refers, collectively, to KoSa Foreign Investments S.à r.l., INVISTA S.à r.l. and INVISTA Equities, LLC.
- “INVISTA Apparel and Advanced Textiles” refers to the apparel and textiles business of INVISTA Equities, LLC identified in the unaudited condensed interim consolidated financial statements included elsewhere in this annual report.
- “Issue Date” means May 4, 2018.
- “Issuers” refers to the Dutch Co-Issuer and the U.S. Co-Issuer.
- “Jining Ruyi” means Jining Ruyi Fibers Co. Ltd., a direct-subsiary of Ruyi.
- “kt” means kiloton.
- “La Porte” refers to The LYCRA Company’s polyurethane intermediates manufacturing facility located in La Porte, Texas, which was shut down in October 2020.
- “MDI” means methylene diphenyl diisocyanate, a chemical compound used in the production of certain of our products.
- “Non-Guarantor Subsidiaries” refers to any subsidiaries of the Dutch Co-Issuer that are not Guarantors.
- “Notes” refers to the Dollar Notes and the Euro Notes, collectively.
- “Offering” refers to the offering of the Notes.
- “Offering Memorandum” refers to the offering memorandum dated April 20, 2018, pursuant to which the Notes were offered to investors.
- “Parent” means Eagle Super Global Holding B.V., a private company with limited liability (*besloten vennootschap met beperkte aansprakelijkheid*) incorporated under the laws of the Netherlands with corporate seat in Amsterdam and registered with the Dutch chamber of commerce under number 71297936, the direct parent of the Issuers.
- “PRC” means the People’s Republic of China.
- “Promissory Note” means the promissory note dated January 31, 2019 between Arteva and A&AT as debtors and INVISTA, as lenders, which has been repaid in full.
- “PTMEG” means polytetramethylene ether glycol, a chemical compound used in the production of certain of our products.
- “Purchase Price Allocation” means the adjustment to acquired assets and liabilities to their estimated fair value as of the Acquisition Closing Date.
- “Revolving Credit Facility” or “RCF” means the \$100 super senior revolving credit facility provided for in the Revolving Credit Facility Agreement.

The LYCRA Company Certain References

(Amounts in millions of U.S. dollars)

- “Revolving Credit Facility Agreement” means the Revolving Credit Facility Agreement governing the \$100 super senior revolving credit facility, dated May 4, 2018 among Parent, the Issuers, JPMorgan Chase Bank, N.A. and Barclays Bank PLC as mandated lead arrangers, JPMorgan Chase Bank, N.A. as facility agent (the “Facility Agent”), Wilmington Trust (London) Limited as security agent (“Security Agent”) and the original lenders specified therein.
- “Ruyi” means Shandong Ruyi Technology Group Co., Ltd.
- “SEC” means the U.S. Securities and Exchange Commission or any successor thereto.
- “Subsidiary Guarantors” means all of the Guarantors other than Parent.
- “Taiwan Acquisition” means the purchase pursuant to the Taiwan Acquisition Agreement by the U.S. Buyer, whether directly or through an affiliate of the U.S. Buyer, of the entire issued share capital of INVISTA (Taiwan) Limited.
- “Taiwan Acquisition Agreement” means the sale and purchase agreement dated March 28, 2018 with, among others, INVISTA and Ruyi, pursuant to which the U.S. Buyer agreed to purchase, whether directly or indirectly or through an affiliate of the U.S. Buyer, the entire issued share capital of INVISTA (Taiwan) Limited, as amended and/or restated from time to time, including on December 21, 2018, April 26, 2019, May 31, 2019, and August 19, 2019.
- “Taiwan Acquisition Closing Date” means August 30, 2019.
- “Taiwan Entities” refers to the Company’s 50% ownership interest in the Taiwanese joint venture, Shinpont Industry Inc., prior to the consummation of the Acquisition and INVISTA (Taiwan) Limited.
- “Target Group” means the Company, together with its subsidiaries, acquired pursuant to the Acquisition Agreement and the Taiwan Acquisition Agreement.
- “Transactions” refers to the Acquisition and the Taiwan Acquisition.
- “U.S. Buyer” means Ruyi US Acquisition Corp., a Delaware corporation.
- “U.S. Co-Issuer” means Ruyi US Finance LLC, a Delaware limited liability company.
- “The LYCRA Company,” “we,” “us,” “our” and other like terms refer, for periods on or prior to the Acquisition Closing Date, to Parent and its consolidated subsidiaries (excluding the Target Group), and, for periods following the Acquisition Closing Date, refer to Parent and its consolidated subsidiaries (including the Target Group other than the Taiwan Entities on or prior to the Taiwan Acquisition Closing Date), unless otherwise provided in this annual report.
- “Yinchuan Binhe” means Yinchuan Binhe Hengyi Fiber New Materials Co. Ltd and its affiliates.
- “Yinchuan Facility” means the spandex manufacturing facility located in East Jinyuan Road, Binhe New District, Yinchuan City, Ningxia Autonomous Region, PRC.

The LYCRA Company
Forward-Looking Statements

(Amounts in millions of U.S. dollars)

Certain of the statements made in this annual report may be considered to be "forward-looking statements" within the meaning of the U.S. securities laws and the securities laws of certain other jurisdictions, such as statements that include the words "aim," "expect," "estimate," "believe," "project," "plan," "anticipate," "should," "intend," "probability," "risk," "may," "will," "assume," "target," "goal," "objective," "continue," "could," "forecast," "guidance," "potential," "predict" and similar expressions or variations on such expressions. These statements appear in a number of places throughout this annual report.

By their nature, forward-looking statements involve risks and uncertainties because they relate to events and depend on circumstances that may or may not occur in the future. We believe that these risks and uncertainties include those described in the "Risk Factors" section of this annual report. Those factors should not be construed as exhaustive and should be read with the other cautionary statements in this annual report.

In light of these risks, uncertainties, and assumptions, the forward-looking events described in this annual report may not be accurate or occur at all.

We undertake no obligation, and do not intend, to release publicly the result of any revisions to these forward-looking statements which may be made to reflect events or circumstances after the date hereof, including changes in our business or strategy or planned capital expenditures, or to reflect the occurrence of unanticipated events. New risks emerge from time to time and it is not possible for us to predict all such risks, nor can we assess the impact of all such risks on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements.

We provide a cautionary discussion of risks and uncertainties under "Risk Factors" contained elsewhere in this annual report. These are factors that we think would cause our actual results to differ materially from expected results. Other sections of this annual report describe additional factors that could adversely affect our business, financial condition, or results of operations. These factors are not exhaustive and other factors besides those listed could also adversely affect us.

We urge holders of the Notes to read carefully the sections of this annual report entitled "Risk Factors" for a more detailed discussion of the factors that could affect our future performance and the markets in which we operate.

The LYCRA Company

Use of Non-GAAP Financial Measures

(Amounts in millions of U.S. dollars)

Non-GAAP Financial Measures

In this annual report, in addition to GAAP financial measures, we present "EBITDA" and "Adjusted EBITDA", which are not financial measures under GAAP or any other internationally accepted accounting principles. We present these financial measures (1) because they are used by our management to monitor our financial results and available operating liquidity, and (2) to represent similar measures that are often used by certain bondholders, securities analysts, and other interested parties as supplemental measures of financial position, financial performance, and liquidity. We believe these measures enhance the bondholders' understanding of indebtedness and our current ability to fund our ongoing operations.

We define each of the following non-GAAP financial measures as follows:

- "EBITDA" consists of consolidated net income (loss) adjusted to eliminate (1) interest expense, (2) income tax (benefit) expense, and (3) depreciation and amortization.
- "Adjusted EBITDA" consists of EBITDA adjusted for (1) non-operating income or expense, (2) the impact of certain non-cash and other items that are included in net income for the periods presented that we do not consider indicative of our ongoing operating performance, and (3) unusual items impacting results in a particular period to more accurately reflect management's view of the recurring profitability of the business.

Neither EBITDA nor Adjusted EBITDA as presented in this annual report is necessarily the same as Consolidated EBITDA as defined in the Indenture or the Revolving Credit Facility, which will be used for purposes of certain covenants under the Indenture and the Revolving Credit Facility.

The foregoing non-GAAP financial measures are not measures based on GAAP, and you should not consider such items as an alternative to the historical financial results or other indicators of our position or performance based on GAAP. The non-GAAP financial measures, as defined by us, may not be comparable to similarly-titled measures as presented by other companies due to differences in the way our non-GAAP financial measures are calculated. The non-GAAP financial information contained in this annual report is not intended to comply with the reporting requirements of the SEC and will not be subject to review by the SEC. Even though the non-GAAP financial measures are used by management to assess our financial position, financial results, and liquidity, and these types of measures are commonly used by investors, they have important limitations as analytical tools, and you should not consider them in isolation or as substitutes for analysis of our financial position or results of operations as reported under GAAP.

In addition, the consolidated financial information of Parent for the year ended December 31, 2019, when combined with the estimated financial results (based on management estimates) of INVISTA Apparel and Advanced Textiles for the period from January 1, 2019 to January 31, 2019, constitutes non-GAAP financial information. These non-GAAP financial measures should not be considered a substitute for, or superior to, financial measures calculated in accordance with GAAP. See "Presentation of Financial Information."

The LYCRA Company

Presentation of Financial Information

(Amounts in millions of U.S. dollars)

Description of the Acquisition

On October 27, 2017, the U.S. Buyer, an affiliate of the Issuers, entered into a sale and purchase agreement with, among others, INVISTA, pursuant to which the U.S. Buyer agreed to purchase, whether directly or through an affiliate of the U.S. Buyer, the entire issued share capital and limited liability interests of the Company. The Acquisition Agreement was subsequently amended and restated on March 28, 2018 in order to, among other things, address the arrangement with respect to the acquisition of INVISTA's interests in the Taiwan Entities and to mitigate the impact of any delayed transfer of the interests in the Taiwan Entities.

All conditions precedent under the Acquisition Agreement were satisfied on October 26, 2018. The Acquisition Agreement was further amended and restated on December 21, 2018 in order to, among other things, allow for closing of the Acquisition to occur on January 31, 2019 and take into account agreed commercial changes to the consideration mechanics. A side letter to the Acquisition Agreement was entered into on January 31, 2019 and subsequently amended on April 26, 2019 to, among other things, allow for \$78 to be paid under the Promissory Note for the purpose of satisfying the working capital closing adjustment. The Promissory Note was amended and restated on August 30, 2019, in connection with the Taiwan Acquisition. The principal amount and interest under the Promissory Note was payable in two tranches: \$25 of principal on July 31, 2019, which The LYCRA Company satisfied, and the remaining principal amount plus all accrued but unpaid interest on July 31, 2020. Interest accrued on the unpaid principal amount of the Promissory Note outstanding from and including July 31, 2019 until payment in full of all amounts due and would be compounded and capitalized as principal on a quarterly basis (calculated daily) at an initial rate of 10%, and a reduced rate of 7.5% per annum beginning August 30, 2019 per the amended agreement.

During 2020, the Promissory Note was amended and restated to extend the maturity date to November 30, 2020 and set the interest rate at 12% per annum, which interest accrued on the unpaid principal amount outstanding from and including July 31, 2020. The Promissory Note was ultimately repaid in full (along with accrued and unpaid interest) by January 8, 2021 (see Note 17, *Subsequent Events* within the Notes to the Consolidated Financial Statements).

On May 4, 2018, we completed the issuance of the Notes, with the proceeds therefrom deposited into escrow. The Acquisition closed on January 31, 2019 and the proceeds from the Offering were released from escrow.

The Taiwan Acquisition Agreement was amended and restated on December 21, 2018 in order to, among other things, take into account agreed commercial changes to the consideration mechanics. The Taiwan Acquisition Agreement was further amended on April 26, 2019, May 31, 2019, and August 19, 2019 in order to, among other things, allow for the closing of the Taiwan Acquisition to occur on August 30, 2019. All conditions precedent under the Taiwan Acquisition Agreement were satisfied on April 2, 2019. On August 30, 2019, The LYCRA Company completed the Taiwan Acquisition.

Parent is a holding company of 100% of the capital stock of the Issuers. The Dutch Co-Issuer, together with the U.S. Co-Issuer, are the Issuers of the Notes. Parent's operations are conducted by indirect wholly-owned subsidiaries which are directly and indirectly owned by the Dutch Co-Issuer. As of January 31, 2019, all of the equity of Parent was indirectly and beneficially owned as follows: Ruyi as to 53.4%; Eagle Global Investments LLC, an affiliate of INVISTA, as to 22.2%; CFC Investment Co., Ltd, an affiliate of Itochu Corporation, as to 15.5% and other minority investors as to the remaining 8.9%.

Accounting Procedures Before and Following Transactions

For the year ended December 31, 2019, we present, on a non-GAAP combined basis, audited consolidated financial information of Parent for the year ended December 31, 2019 and the estimated financial results

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Presentation of Financial Information

(Amounts in millions of U.S. dollars)

(based on management estimates) of INVISTA Apparel and Advanced Textiles for the period from January 1, 2019 to January 31, 2019. The financial results of INVISTA Apparel and Advanced Textiles for the period from January 1, 2019 to January 31, 2019 reflect management estimates related to the one month of operations of INVISTA Apparel and Advanced Textiles not included in Parent's financial statements for the year ended December 31, 2019. The financial information of Parent for the period from January 1, 2019 to January 31, 2019 and included in the financial statements of Parent reflects no operations other than those related to Parent's interest in the escrowed Notes proceeds prior to such proceeds' application in connection with the consummation of the Acquisition. The estimated financial information of INVISTA Apparel and Advanced Textiles for the period from January 1, 2019 to January 31, 2019 has not been subject to an audit or other review.

Parent was formed on March 29, 2018 for the sole purpose of consummating the Acquisition and, consequently has no financial statements as of or for any periods prior to that date.

During the period prior to the Acquisition Closing Date, INVISTA Apparel and Advanced Textiles existed and functioned as part of the consolidated businesses of INVISTA Equities, LLC.

The LYCRA Company's preliminary allocation of the purchase price was completed during the year ended December 31, 2019 and has been included within the financial statements for the year ended December 31, 2019. Acquired assets and liabilities have been adjusted to their estimated fair value as of the Acquisition Closing Date. During 2020, The LYCRA Company identified some measurement period adjustments and finalized the purchase price allocation associated with the Acquisition and the Taiwan Acquisition.

The LYCRA Company

Risk Factors

(Amounts in millions of U.S. dollars)

You should carefully consider the following risks and uncertainties described below and the other information in this annual report, including the discussion set forth in "Forward-Looking Statements" as well as the audited consolidated financial statements and related notes included elsewhere in this annual report. The risks and uncertainties we describe below are not the only ones we face. Additional risks and uncertainties of which we are not aware or that we currently believe are immaterial may also adversely affect our business, financial condition, or results of operations. If any of the possible events described below were to occur, our business, financial condition, or results of operations could be materially and adversely affected.

Risks related to our business

The markets for our products are subject to business cycles and volatility that, together with, and in addition to, unfavorable economic conditions, could adversely affect our ability to maintain profitable margins.

Historically, the markets for many of our products are subject to periodic business cycles that result in alternating periods of tight supply (causing prices and profit margins to increase), followed by periods of production capacity additions (resulting in oversupply, declining prices, and reduced profit margins). Periods in which general economic conditions reduce overall demand for these goods further exacerbate the adverse impact on our ability to maintain product prices and production volumes. These markets also experience volatility as a result of changes in the supply and demand for products, changes in raw materials and energy prices, and changes in various other economic conditions around the world. The cyclicity and volatility in these markets could result in significant fluctuations in profits and cash flow from period to period over the business cycle.

Unfavorable economic conditions or an uncertain economic outlook in one or more of the principal markets in which we operate, particularly in the PRC, Western Europe, and the United States, or will operate in the future, could significantly adversely affect our net sales, growth, and profitability, and could have a material adverse effect on our business, financial condition, or results of operations. Accordingly, we can provide no assurance that we will be able to maintain profitable margins during periods of oversupply or reduced demand over the course of these business cycles.

Our business and results of operations may be adversely affected by the recent coronavirus outbreak or other similar outbreaks.

Our global operations expose us to risks associated with public health crises, such as pandemics and epidemics, which could harm our business and cause operational results to suffer. As a result of the coronavirus, COVID-19, our operations, and those of our customers and suppliers, experienced delays or disruptions, such as difficulty obtaining required materials, suspension of operations, limitations on our ability to access office locations, and difficulties in processing orders and shipping goods. Due to the significant spread of COVID-19 and the resulting widespread health crisis, global economies have been adversely affected, resulting in an economic downturn that have affected our operating results in 2020 and may continue to affect our operating results in 2021. For example, COVID-19 has affected, and we expect that COVID-19 may continue to impact, among other things:

- Consumer confidence and consumer spending habits, including spending for the merchandise that contains our products;
- Decreased purchases by our customers and the increased likelihood of customer failure;
- Possible disruption to the supply chain caused by distribution and other logistical issues;
- Decreased productivity due to travel ban, work-from-home policies, or shelter-in-place orders; and
- Increased costs and disruptions due to governmental health and safety mandates.

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(Amounts in millions of U.S. dollars)

The most significant financial impact to our business was during the three months ended June 30, 2020. During this time, we experienced an approximately 42% decrease in net sales compared to the three months ended June 30, 2019, which can be largely attributable to a decline in market demand as a response to COVID-19. As a response to the decline in demand, our spandex facilities operated at 60% of capacity in order to conserve cash.

The impact of the COVID-19 pandemic is fluid and continues to evolve, and therefore, we cannot currently predict the extent to which our business, results of operations, or financial condition will ultimately be impacted. In particular, we cannot predict the extent to which the COVID-19 pandemic will affect our business, results of operation, or financial condition in the long term because the duration and severity of the pandemic and its negative impact on the economy, including our customers, is unclear. The impact of the COVID-19 pandemic on us will also be dependent on: the resiliency of the apparel market and consumer spending more broadly, actions taken by national, state, and local governments to contain the disease or treat its impact, and any prolonged economic recession resulting from the pandemic. We do not expect economic and operating conditions for our business to improve until consumers are once again confident in the strength of the economy, and this may not occur until well after the pandemic abates. There is no certainty that current mitigating measures, or any additional actions that we may take in the future, will be successful in mitigating the impact of the pandemic on our business, results of operations, or financial condition.

We currently expect that the COVID-19 outbreak will continue to impact our financial performance into 2021, particularly to the extent of a resurgence of the COVID-19 pandemic. We are unable to predict the ultimate impact of any such resurgence or the re-imposition or continuation of restrictive measures designed to combat the COVID-19 pandemic by national, regional, and local governments.

Any of the foregoing could materially and adversely affect our business, financial condition, and results of operations.

Volatility in the cost of our raw materials and energy, or a disruption in the supply of raw materials, may adversely affect our business, financial condition, or results of operations.

Raw material and energy costs represent significant components of our operating costs. Our results of operations can be directly impacted positively and negatively by volatility in the cost of our primary raw materials (natural gas, PTMEG, MDI, methanol, and nylon intermediates) and energy (power and natural gas), on an absolute and relative price basis. We also purchase polyester products for resale and the cost of these products can vary with raw material costs and market conditions. Price volatility for raw materials and energy costs can result in price fluctuations for our products, which in turn can impact demand for our products. Additionally, we may be limited in our ability to pass through cost increases related to higher raw materials and energy costs. Crude oil price is a key driver of the cost of raw materials because higher crude oil prices generally lead to higher costs for raw materials for both us and our competitors. Our inability to offset material price inflation through increased prices to customers, formula-based or long-term fixed price contracts with suppliers, productivity actions, or commodity hedges could adversely affect our business, financial condition, or results of operations.

We have increased our number of suppliers over the past decade, but we still depend upon a number of single-source suppliers for certain raw materials used in our products. In some cases, this is due to favorable contracts where alternate sources may be available, but a number of specialty additives are only available from single sources. In some cases, it may be possible to find similar products to replace the products purchased from these suppliers, but the redevelopment of a formulation is time consuming and may result in changes to final product properties. Our dependence upon these and other single-source suppliers of raw materials exposes us to several risks, including disruptions in supply, price increases, late deliveries, and an inability to meet customer demand.

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(Amounts in millions of U.S. dollars)

If the availability of raw materials or energy is limited, we may be unable to produce products in the quantities required, which could adversely impact utilization rates and results of operations. In 2017, force majeure declarations at our two acetylene suppliers as a result of Hurricane Harvey resulted in the cessation of certain of our operations at our (now closed) La Porte facility for about four months until the suppliers could resume production and lower initial 2018 site inventory levels extended purchasing requirements for PTMEG. Production problems, an act of God, a severe weather event or a global pandemic, or political or civil instability in the home countries of our suppliers may affect supply and market costs in the future. We can provide no assurance that there will not be a shortage of available raw materials and energy or that we will not experience increases in the cost or volatility of raw materials and energy. Increases in the volatility, cost or cost spreads of raw materials or energy could significantly reduce our operating margins and have a material adverse effect on our business, financial condition, or results of operations.

Additionally, a significant portion of our manufacturing operations are conducted in North America, Europe, Asia, and South America. Many of our competitors have concentrated manufacturing facilities in Asia. The costs of raw materials and energy supplies can vary by region due to local supply and demand factors, transportation costs, and government policies. Some competitors may have an advantage in the variable costs of their manufacturing operations to the extent that their raw materials and energy costs are lower than ours. Relatively higher costs for raw materials and energy could adversely affect our business, financial condition, or results of operations if we are unable to pass through higher costs to our customers. Increased costs to our customers could lead to customer dissatisfaction, damage to our reputation, customers switching to competitive products, or loss of sales.

Our substantial and expanding international operations are subject to uncertainties which could adversely affect our business, financial condition, or results of operations.

We manufacture products directly and through joint ventures in more than eight countries and have sales within more than 75 countries in North America, Europe, Asia, and South America. International operations and business expansion plans are subject to numerous additional risks, including:

- compliance with U.S. or foreign regulations concerning bribery and corruption, such as the U.S. Foreign Corrupt Practices Act ("FCPA") and the U.K. Bribery Act 2010 ("U.K. Bribery Act");
- compliance with U.S. Department of Commerce or other U.S. and non-U.S. regulations concerning economic sanctions and export controls;
- changes in duties and tariffs, license obligations, and other non-tariff barriers to trade, such as quotas and local content rules;
- difficulty enforcing agreements and collecting receivables through some foreign legal systems;
- protecting, maintaining, and defending our intellectual property and proprietary processes, particularly in countries where intellectual property rights are not as well protected as in the United States;
- fluctuations in foreign currency exchange rates;
- longer payment cycles of customers in some foreign countries;
- our ability to execute cash movements or repatriations of cash, as necessary, between our various U.S. and foreign subsidiaries and co-investments;
- general economic, social, or political conditions in the countries in which we operate;

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(Amounts in millions of U.S. dollars)

- possible unexpected or adverse changes in the legal, political, or economic framework of countries in which we produce or sell products;
- the imposition of withholding taxes or other taxes, or the adoption of other restrictions on foreign trade or investment, including currency exchange controls, which could restrict our ability to transfer our cash flow;
- staffing difficulties, national or regional labor strikes or other labor disputes, which could impact our ability to hire or retain staff;
- exposure to the imposition of price controls;
- challenges remaining competitive with other retailers with potentially better knowledge of the local market;
- exposure to different customer demand dynamics;
- compliance with U.S. and international antitrust and competition laws and regulations;
- increased trade tariffs following the U.K.'s withdrawal from the EU; difficulties in penetrating new markets due to entrenched competitors, lack of recognition of our brand, and lack of local acceptance of our products and services;
- differing business practices, which may require us to enter into agreements that include non-standard terms;
- exposure to varying duty rates as a portion of our production is exported from facilities in countries where our products are manufactured;
- the risk that U.S. and foreign governments may adopt laws or regulations or take other actions that would negatively impact our business and market opportunities, including nationalization of private enterprises;
- increased costs of transportation and shipping; and
- new tax regulations, direct and indirect, in the United States and the various international jurisdictions where we operate.

Any of these factors, or other similar factors, could have a material adverse effect on our existing international operations and, consequently, our business, financial condition, or results of operations.

Our international operations require us to comply with trade restrictions such as economic sanctions and export controls.

We are subject to trade restrictions, including laws and regulations relating to economic sanctions and export controls, imposed by governments around the world with jurisdiction over our operations, which prohibit or restrict transactions involving certain designated persons and certain designated countries or territories, including Cuba, Iran, Sudan, Syria, North Korea, Venezuela, Russia, and the Crimea Region of Ukraine. Our failure to successfully comply with these laws and regulations may expose us to reputational harm, as well as significant sanctions, including criminal fines, imprisonment, civil penalties, disgorgement of profits, injunctions, debarment from government contracts, and other remedial measures. Investigations of alleged violations can be expensive and disruptive. We maintain policies and procedures designed to comply with these laws and regulations. As part of our business, we may, from time to time, engage in

The LYCRA Company

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(Amounts in millions of U.S. dollars)

limited sales and transactions involving certain countries that are targets of economic sanctions, so long as these sales and transactions are permissible under applicable economic sanctions laws and regulations. However, we cannot predict the nature, scope, or effect of future regulatory requirements. We can provide no assurance that broader laws and regulations relating to economic sanctions and export controls will not be imposed or that existing laws and regulations will not be changed so as to affect existing authorizations relating to economic sanctions and export controls, nor can we predict the manner in which existing laws and regulations might be administered or interpreted. Further, we cannot guarantee that our policies and procedures will be effective in preventing violations, which could adversely affect our business, financial condition, or results of operations.

Our failure to comply with the anti-corruption laws of the United States and various international jurisdictions could negatively impact our business, financial condition, or results of operations.

Doing business on a worldwide basis requires us to comply with anti-corruption laws and regulations imposed by governments around the world with jurisdiction over our operations, which may include the FCPA and the U.K. Bribery Act, as well as the laws of the countries where we do business. These laws and regulations may restrict our operations, trade practices, investment decisions, and partnering activities. The FCPA and the U.K. Bribery Act prohibit us and our officers, directors, employees, and business partners acting on our behalf (including agents) from corruptly offering, promising, authorizing, or providing anything of value to foreign government officials for the purposes of influencing official decisions or obtaining or retaining business or otherwise obtaining favorable treatment. The U.K. Bribery Act also prohibits non-governmental commercial bribery, soliciting, or accepting bribes and "facilitation payments," or small payments to low-level government officials to expedite routine approvals. We are subject to the jurisdiction of various governments and regulatory agencies around the world, which may bring our personnel and representatives into contact with foreign government officials responsible for issuing or renewing permits, licenses, or approvals or for enforcing other governmental regulations. In addition, some of the international locations in which we operate lack a developed legal system, and others are perceived to have elevated levels of public corruption. Our global operations expose us to the risk of violating, or being accused of violating, anti-corruption laws and regulations. Our failure to successfully comply with these laws and regulations may expose us to reputational harm, as well as significant sanctions, including criminal fines, imprisonment, civil penalties, disgorgement of profits, injunctions, and debarment from government contracts, as well as other remedial measures. Investigations of alleged violations can be expensive and disruptive.

Foreign companies, including some that may compete with us, are not always subject to the prohibitions listed above, and therefore may have a competitive advantage over us. We maintain policies and procedures reasonably designed to comply with applicable anti-corruption laws and regulations. However, we cannot guarantee that our policies and procedures will effectively prevent violations by our employees, agents, or representatives for whom we may be held responsible, and any such violation could adversely affect our business, financial condition, or results of operations.

Our failure to effectively manage and execute our capital projects, acquisitions and other business strategies could have a material adverse effect on our business, financial condition, or results of operations.

From time to time, we have invested, and we expect to continue to invest, in capital projects, acquisitions, and other strategies that we believe to be consistent with our business and growth objectives. These investments may create risks, such as the potential disruption of our ongoing business, loss of management focus on existing businesses, inability to retain key personnel, cost overruns, delays in capital investment projects, loss or weakening of intellectual property rights, and incurrence of additional unknown liabilities, among others.

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If we fail to successfully manage and execute our capital investment projects, including meeting target costs, completion deadlines, or operating specifications, such failure in management and execution could adversely affect our business and growth objectives. Similarly, our inability to successfully execute on, integrate, and develop any future acquired businesses could result in our failure to achieve anticipated synergies, cost savings and increases in profitability that are material to our business and growth objectives. In particular, organizational changes could result in business disruptions and the loss of key personnel. Any failure to successfully execute our business strategies and to achieve our business and growth objectives could have a material adverse effect on our business, financial condition, or results of operations.

Failure to enter into the lease agreement for the Yinchuan Facility on favorable terms or at all could have a material adverse effect.

Yinchuan Binhe, or a successor in interest, has the potential to construct a spandex manufacturing facility with an expected 60kt production capacity. Although the current state of such facility is uncertain, it has been contemplated that, upon completion of the Yinchuan Facility, we will lease this facility in order to manufacture ELASPAN[®] and lower grade LYCRA[®] fibers at 20, 40, and 70 denier. Depending on the products produced at the Yinchuan Facility, additional capital expenditures may be required. Entry into the lease is subject to finalization of the terms of the lease and a number of conditions, including an appraisal that confirms that the lease terms provide a fair economic return to the Yinchuan government. However, we can provide no assurance that that construction of the Yinchuan Facility will be completed or that it will be completed in a timely manner, or that required permits will be obtained. In addition, we can provide no assurance that the lease will be entered into on the terms described in the Offering Memorandum, that the lease will not be entered into on terms materially less favorable to us or that a lease will be entered into at all. If we do not lease the Yinchuan Facility, given its proposed capacity, it may result in a flood of lower grade fibers, which could result in a decline in the price of our ELASPAN[®] and lower grade LYCRA[®] fibers.

We may need to recognize impairment charges related to goodwill, identified intangible assets, and fixed assets.

We received substantial balances of goodwill and identified intangible assets as a result of the Transactions, and to the extent that we undertake future acquisitions, these balances may increase. We are required to test goodwill and any other intangible asset with an indefinite life for possible impairment on the same date each year and on an interim basis if there are indicators of a possible impairment. We are also required to evaluate amortizable intangible assets and fixed assets for impairment if there are indicators of a possible impairment.

There is significant judgment required in the analysis of a potential impairment of goodwill, identified intangible assets, and fixed assets. If, as a result of a general economic slowdown, deterioration in one or more of the markets in which we operate, or impairment in our financial performance and/or future outlook, the estimated fair value of our long-lived assets decreases, we may determine that one or more of our long-lived assets is impaired. An impairment charge would be recorded if the estimated fair value of the assets is lower than the carrying value, and any such impairment charge could have a material adverse effect on our business, financial condition, or results of operations.

We face intense competition in highly competitive global markets and are subject to significant price pressures.

We face intense competition in highly competitive global markets and compete with companies that use technologies that are widely available and have low barriers to entry. Many of the products we make are subject to competition from generic alternatives or substitute products that can be produced readily by new or existing competitors. Because generic products have little or no distinguishing qualities from

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producer to producer, competition with generic products is based primarily on price, which is determined by supply relative to demand.

For example, generic fibers continue to increase their share of the global market, particularly in applications that do not require higher quality or technical materials, and competitors may continue to increase their generic fiber production capabilities. The increased production capacity, quality, and price competition of generic fiber may decrease demand for our differentiated products or erode the value of premium brands that we own (such as our LYCRA® fiber), potentially forcing us to lower our product prices or reduce our production volumes.

We also compete with some of the world's largest chemical and fiber manufacturers. Our competitors may be able to adapt to changes in customer preferences or spending more effectively on research and development or be more successful in developing their brand reputation. If we are unable to compete effectively with our competitors' product and manufacturing process innovations or cost position improvements, we could lose market share to our competitors. Some of these companies may be able to produce products more economically, have greater financial, technological, and other resources, and may be better able to withstand changes in market conditions.

As a result, competition in any of our businesses could compel us to reduce the prices of our products and reduce our production volumes, which could result in lower profit margins, loss of our current share of market sales and may have a material adverse effect on our business, financial condition, or results of operations.

Our business is dependent on our intellectual property. If our trademarks or patents are declared invalid or generic, or our proprietary knowledge and information become known to our competitors, our ability to compete may be adversely affected.

Protection of our trademarks, patents, proprietary processes, apparatuses, and other technologies is important to our businesses. We also manage a trademark portfolio (including the LYCRA®, LYCRA HyFit®, COOLMAX®, THERMOLITE®, LYCRA® T400®, ELASSPAN®, SUPPLEX® and TACTEL® trademarks) that is important in maximizing the benefits of our various product brands. We may not be able to protect our rights to these trademarks or may be forced to stop using these names, which are integral to our name recognition by potential partners or customers. Equally, we can provide no assurance that any of our intellectual property, or the intellectual property that we license, will not be challenged, invalidated, circumvented, declared generic, or rendered unenforceable, or that unpatented proprietary knowledge and technical information will be protected. We also will be unable to prevent third parties from using our patented inventions when such patents expire.

Furthermore, we cannot guarantee that any pending patent or trademark application that we file will result in an issued patent or trademark. If any such application does not result in an issued patent or trademark, or if patents or trademarks are issued to us but do not provide meaningful protection of our intellectual property, then the use of any such intellectual property by our competitors could have a material adverse effect on our business, financial condition, or results of operations.

We also rely upon our unpatented proprietary knowledge and information and continuing technological innovation and other trade secrets to develop and maintain our competitive position. While we generally enter into confidentiality agreements with our employees and third parties to protect our intellectual property, these confidentiality agreements may be breached, may not always be executed, may not be enforceable, may not provide meaningful protection, or adequate remedies may not be available. Others could also obtain knowledge of trade secrets through independent development or other access (whether legal or illegal).

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The failure of our patents or confidentiality agreements to protect our processes, apparatuses, technology, trade secrets, or proprietary knowledge and information, and the cost of protecting this information, could render us unable to prevent third party use of this information and could have a material adverse effect on our business, financial condition, or results of operations.

Our efforts to protect our intellectual property may be less effective in some countries where intellectual property rights are not as well recognized or protected as in the United States.

The laws of some countries do not protect proprietary rights to the same degree as the laws of the United States and there is a risk that our ability to protect our proprietary rights may not be adequate in these countries. Many companies have encountered significant problems in protecting their proprietary rights against copying, infringement, or misappropriation in such countries, some of which are countries in which we currently sell or intend to sell our products or do business. In particular, the application of laws governing intellectual property rights in the PRC is uncertain and evolving and could involve substantial risks to us. If we are unable to adequately protect our intellectual property rights in the PRC or elsewhere, our business, financial condition, or results of operations could be materially adversely affected. In addition, our competitors in the PRC and other countries may independently develop similar technology or duplicate our products, even if unauthorized, which could potentially reduce our sales in such countries and harm our business, financial condition, or results of operations.

We may face intellectual property infringement claims that could be costly to defend and result in the loss of significant rights.

From time to time, we may receive notices from third parties claiming infringement by our products and services of third-party patent and other intellectual property rights. As the number of products and services in our markets increases and the functionality of these products and services further overlaps, we may become increasingly subject to claims by a third party that our products and services infringe such party's intellectual property rights. In addition, there is a growing occurrence of patent suits being brought by organizations that use patents to generate revenues without manufacturing, promoting, or marketing products, or investing in research and new product development in bringing products to market. These organizations continue to be active and target whole industries as defendants. We may not prevail in any such litigation given the complex technical issues and inherent uncertainties in intellectual property litigation.

If an infringement suit against us is successful, we may be required to compensate the third party bringing the suit either by paying a lump sum or ongoing license fees to be able to continue selling a particular product or service. This type of compensation could be significant. We might also be prevented or enjoined by a court from continuing to provide the affected product or service and may be forced to significantly increase our development efforts and resources to redesign such product or service. We may also be required to defend or indemnify any customers who have been sued for allegedly infringing a third party's patent in connection with using one of our products or services. Responding to intellectual property claims, regardless of the validity, can be time-consuming for our personnel and management, result in costly litigation, cause product shipment delays, and harm our reputation, any of which could adversely affect our business, financial condition, or results of operations.

We may also become involved in litigation against third parties, including infringement, breach of confidence, oppositions, invalidity, or ownership actions in order to protect and maintain our intellectual property and prevent third party use, which could be costly to our business and in which it is not guaranteed that we will be successful.

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We may not be able to maintain intellectual property licenses which are material to our business.

We license intellectual property to and from third parties and we cannot guarantee that such licenses will remain in place or continue to remain complied with, or that such licenses will be renewed when they expire. The termination or expiration of these licenses could lead to loss of revenue for our business or could render us unable to use third party intellectual property that we currently use in our business.

We depend upon our information technology systems, which are subject to interruption and failure.

Our business operations could be disrupted if our information technology systems fail to perform adequately. The efficient operation of our business depends on our information technology systems, some of which are managed by third-party service providers. We rely on our information technology systems to effectively manage our business data, communications, supply chain, order entry and fulfillment, and other business processes.

The failure of our information technology systems to perform as we anticipate could disrupt our business and could result in transaction errors, processing inefficiencies and the loss of sales and customers, causing our business, financial condition, or results of operations to suffer. In addition, our information technology systems may be vulnerable to damage or interruption from circumstances beyond our control, including fire, natural disasters, power outages, systems failures, security breaches, cyber-attacks, and viruses. Any such damage or interruption could have a material adverse effect on our business, financial condition, or results of operations.

Our production facilities process hazardous materials that subject us to operating and legal risks, and regulations concerning the security of manufacturing facilities and the manufacturing, storage, transportation, and disposal of hazardous chemicals could adversely affect our business, financial condition, or results of operations.

Our facilities, which are located in North America, South America, Europe, and Asia, as well as those of our co-investments, are subject to various hazards and operating risks associated with manufacturing and the related use, storage, transportation and disposal of feedstocks, products, and wastes, including pipeline or storage tank leaks and ruptures, fires or explosions, spills or unauthorized releases of hazardous materials, mechanical failures, failures of pollution control or safety equipment, and severe weather, among others.

These events can cause personal injury and loss of life, catastrophic damage to or destruction of property and equipment and environmental and natural resource damage, and may result in substantial losses to us, a suspension of operations, the imposition of civil or criminal penalties, damage to our public reputation and brand and diminished product acceptance. We could become subject to legal claims for environmental remediation, natural resource damages or personal injury, brought by governmental entities or third parties. In particular, a shutdown over an extended period at any of our major operating facilities or any claims related to any future release of hazardous materials or other environmental, health or safety accident at any of our facilities could have a material adverse effect on our business, financial condition, or results of operations.

The Occupational Safety and Health Act ("OSHA") and comparable state statutes regulate the protection of the health and safety of workers. In December 2015, the U.S. Departments of Justice and Labor announced a plan to more frequently and effectively prosecute worker health and safety violations, including enhanced penalties. In addition, the OSHA hazard communication standard requires that information be maintained about hazardous materials used or produced in operations and that this information be provided to employees, state, and local governmental authorities, as well as the public.

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OSHA also imposes process safety management requirements for the management of hazards associated with processes using certain hazardous chemicals. From time to time, we receive and investigate complaints concerning potential violations of OSHA and other comparable state statutes at our facilities.

Our operations and assets are subject to extensive environmental, health and safety laws and regulations.

As a manufacturing business, our facilities and operations, as well as those of our co-investments, are subject to many environmental, health and safety laws and regulations in the jurisdictions in which we operate and are regularly monitored by regulatory authorities. This includes extensive foreign, federal, state, provincial, and local laws and regulations pertaining to pollution, as well as protection of the environment and human health and safety, which govern, among other things, emissions to the air, discharges onto land or into waters, maintenance of safe conditions in the workplace, remediation of contaminated sites and natural resource damages, and generation, handling, release, storage, transportation, treatment and disposal of hazardous and solid waste materials. These laws and regulations, including the terms of environmental permits required for our operations, can require the installation of costly pollution control equipment or implementation of costly operational changes to limit emissions and discharges and/or reduce the likelihood or impact of hazardous substance releases. Violations of these requirements can result in the imposition of substantial fines and potential civil or criminal sanctions or costly third-party damage claims.

In addition, certain environmental laws impose strict liability (i.e., no showing of "fault" is required) as well as joint and several liability for the investigation, remediation, and/or restoration of sites where hazardous substances or solid wastes have been stored or released. As an owner or operator of an asset, we may be required to investigate or remediate contaminated properties currently or formerly owned or operated by us, or facilities of third parties that received waste generated by our operations, regardless of whether such contamination resulted from the conduct of others or from the consequences of our own actions that were in compliance with all applicable laws at the time those actions were taken. In connection with certain acquisitions, we could acquire, or be required to provide indemnification against, environmental liabilities that could expose us to material losses. Furthermore, the existence of contamination at properties we own, lease, or operate could result in increased operational costs or restrictions on our ability to use those properties as intended. For example, certain of our assets and business operations that were previously owned by DuPont are currently subject to corrective action or similar remediation obligations pursuant to the federal Resource Conservation and Recovery Act ("RCRA") or other similar statutes. Under the terms of the 2003 Purchase Agreement conveying such assets and operations, DuPont agreed to retain ownership of certain sites with known contamination until the active remediation is complete. In addition, DuPont agreed to provide an indemnity against specified environmental liabilities arising with respect to the business prior to the closing of that transaction, including liabilities with respect to pre-closing exposure to hazardous materials, offsite waste disposal or offsite migration of existing contamination, and release of hazardous substances or violations of environmental laws at various locations. If for any reason we do not receive the benefit of that environmental indemnification, we could incur material costs in respect of the known contamination and related litigation matters or other matters arising in the future that result from historical operations of the facilities or business being acquired.

We cannot predict future developments with respect to changes in environmental, health and safety laws or regulations, inspection and enforcement policies, or related compliance costs or the extent of our liabilities and costs as a result of those potential future changes. New environmental laws or regulations may impose substantial liabilities and costs on us and require us to pay damages or penalties in connection with practices that were legal prior to the effectiveness of the new laws or regulations. For example, environmental advocacy groups and regulatory agencies in the United States and other countries in which our operations are conducted have been focusing considerable attention on the emissions of greenhouse gases ("GHGs") and their potential role in climate change. In October 2009, the U.S. Environmental

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Protection Agency (the "EPA") published a rule for the mandatory reporting of GHGs from sources that emit 25,000 metric tons or more of carbon dioxide equivalent per year in the United States in 41 industrial categories. The collection of this emissions data is expected to guide development of policies and programs to impose restrictions on the emission of GHGs in the United States. In addition, in December 2015, member countries at the 21st Conference of the Parties of the United Nations Framework Convention on Climate Change in Paris, France negotiated an agreement (the "Paris Agreement") which calls for the parties to undertake "ambitious efforts" to limit the average global temperature, and to conserve and enhance sinks and reservoirs of GHGs. The Paris Agreement entered into force in November 2016. Certain nations in which we have manufacturing operations, including the United States, ratified or otherwise indicated that they intend to comply with the Paris Agreement. In June 2017, the then current United States President Trump announced that the United States plans to withdraw from the Paris Agreement and, in August 2017, the United States submitted a communication to the United Nations, as depositary for the Paris Agreement, regarding the United States' intent to withdraw from the Paris Agreement as soon as it was eligible to do so. This was subsequently reversed by the newly elected United States President Biden. The adoption of laws and regulations to implement controls of GHGs, including the imposition of fees or taxes, could adversely affect our business, financial condition, or results of operations. Additionally, certain of the jurisdictions in which we operate are contemplating air pollution control regulations that are more stringent than existing and proposed regulations. Changing environmental regulations could require us to take any number of actions, including the purchase of emission allowances or installation of additional pollution control technology, and could make some operations less profitable.

The adoption of new or more stringent chemical and product registration and use regulations, as well as customer requirements, could adversely affect our business, financial condition, or results of operations.

Our operations and products are subject to stringent chemical and product registration and use regulations and limitations in the United States, the EU, the PRC and elsewhere, including, for example, Registration, Evaluation, Authorization and Restriction of Chemicals ("REACH") in the EU and the Toxic Substances Control Act in the United States. Based on hazard characteristics, chemicals may be identified under REACH as Substances of Very High Concern ("SVHC") and listed on the Candidate List of SVHC for Authorization (the "SVHC Candidate List"). Chemicals ultimately designated as SVHC require authorization by the EU Commission for time-limited continued use which likely will lead to a phase-out of that substance in the EU. One of the chemicals we use in the production of spandex, known as DMAc, has been added to the SVHC Candidate List and was recommended for inclusion as SVHC in Annex XIV of REACH ("the Authorization List"); however, the EU has decided to impose a restriction on DMAc, implementing more stringent worker protections rather than adding DMAc to the Authorization List. Depending on the ultimately agreed limits, our sites in Kerkrade (NL) and Maydown (UK) may need to upgrade workplace ventilation and capturing of DMAc vapors. The process for securing required regulatory approvals under these laws can be costly and time-consuming. The imposition of new laws or regulations, or stricter standards, governing the chemicals we use in our operations could cause us to incur higher operating and raw material costs, higher compliance costs and higher capital costs and may affect our ability to produce our products.

Increased requirements for composition disclosure, including the upcoming "Substance of concern in products" ("SCIP") database in the EU, will require us to provide information to the public about the presence of DMAc in excess of 0.1% in our products. This mandatory disclosure came into effect as of January 5, 2021. The database is meant to provide information to recyclers and waste handlers but also to the consumers to allow the making of informed choices.

Our downstream retailers may also impose additional requirements on us as a result of new regulations or an increased focus on sustainability and "green chemistry" that could negatively affect us. For example, some downstream retailers are requiring that suppliers no longer use, or reduce the use of, chemicals on restricted substance lists. Other brands and retailers set expectations and/or standards requiring all fibers

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and raw materials to have a “sustainable” component, such as being recyclable, using bio-based/non-petroleum-based materials, or having a low impact on GHGs. This trend toward greater sustainability and “green chemistry” could cause us to incur additional direct costs or to discontinue certain product lines and to reformulate others, make changes to our operations and inputs in order to comply with any new regulations and customer requirements, or result in increased indirect costs or loss of revenue resulting from, among other things, our suppliers incurring additional compliance costs that affect our costs and revenues. We could also lose revenue if our customers divert business from us because we have not complied with their sustainability requirements or if they opt to use fibers that are easier to recycle than spandex. These costs, changes and loss of revenue could have a material adverse effect on our business, financial condition, or results of operations.

Our operations are dependent on numerous required permits and approvals.

We hold numerous environmental and other governmental permits and approvals authorizing operations at each of our facilities. In addition, any expansion of our operations is dependent upon securing the necessary environmental or other permits or approvals. A decision by a government agency to deny or delay issuing a new or renewed material permit or approval, or to revoke or substantially modify an existing material permit or approval, could have an adverse effect on our ability to continue operations at the affected facility and on our business, financial condition, or results of operations.

Changes in tax laws or resolutions of tax disputes could have adverse effects on our tax liabilities and positions.

We are subject to taxes in the Netherlands and numerous foreign jurisdictions, the tax regulations of which are extensive and subject to change. We cannot predict the effects or outcomes of any specific tax legislation to which we may become subject. Significant judgment is required in determining our worldwide provision for income taxes. Changes in tax laws, tax treaties, or tax regulations or the interpretation or enforcement thereof by any tax authority to which we are subject, whether based on current proposals or otherwise, could materially and adversely affect our business, financial condition, or results of operations. We are also subject to the examination of our tax returns and other tax matters by tax authorities. There can be no assurance as to the outcome of these examinations. If a taxing authority disagrees with the positions we have taken, we could face additional tax liability, including interest and penalties, which could adversely affect our financial results.

Changes in Dutch fiscal unity regime as a result of Court of Justice of the European Union judgment.

On February 22, 2018, the European Court of Justice ruled in the joined cases X BV (Case C-398/16) and X NV (Case C-399/16) that certain elements of the Dutch fiscal unity regime for corporate income tax purposes are to be considered an unjustified violation of the freedom of establishment and are therefore contrary to European Union law. On June 6, 2018, the Dutch Ministry for Finance published a legislative proposal to amend the Dutch fiscal unity regime for corporate income tax purposes in this respect. This legislative proposal has been enacted as of April 24, 2019, with retroactive effect as of January 1, 2018. Based on this law, the fiscal unity for Dutch corporate income tax purposes should be disregarded for the application of certain tax provisions in the Dutch Corporate Income Tax Act (*Wet op de vennootschapsbelasting 1969*) and the Dutch Dividend Withholding Tax Act (*Wet op de dividendbelasting 1965*), including amongst others certain interest deduction limitations, the participation exemption and the utilization of tax losses. These provisions will then be applied as if the entities within the fiscal unity for Dutch corporate income tax purposes were taxed on a standalone basis. This legislation may adversely affect the tax position of the Dutch Co-Issuer and the group companies included in its fiscal unity for Dutch corporate income tax purposes.

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We are subject to risks associated with seasonality and building working capital for planned downtimes, which could adversely affect our business, financial condition, or results of operations.

Our businesses are subject to seasonal fluctuations in demand, resulting in variations in pricing and utilization of production capacity. In addition, we build inventories in advance of planned downtime, including turnaround events, in order to satisfy customer demand during such downtime. Our working capital needs and corresponding borrowings may peak during periods when we are generating lower revenues due to these seasonal fluctuations or in preparation for planned downtime. During those same periods, we may incur expenditures in preparation for upcoming increases in demand. If our cash on hand, coupled with our availability under our Revolving Credit Facility, is insufficient to cover expenditures resulting from seasonality or preparations for planned downtime, there could be a material adverse effect on our results of our business, financial condition, or results of operations.

Our individual businesses rely on significant customers, and the loss of any of those customers in a profitable product line could have a material adverse effect on our business, financial condition, or results of operations.

No single customer or distributor represented more than 7% of total sales for the year ended December 31, 2020. However, we have a number of customers that account for a significant portion of our total sales for individual lines of business. From time to time, our customers may make decisions that could reduce our sales of particular products, decrease the number of customers for those products or increase the ownership concentration in the markets for those products. A significant customer could also fail to satisfy its obligations under its sales arrangements or purchase orders. Any of the foregoing, including the loss of a key customer in any of our key product lines, could have a material adverse effect on our business, financial condition, or results of operations.

If we experience significant unplanned downtime at our manufacturing facilities in the future, we may experience a material adverse effect on our business, financial condition, or results of operations.

Manufacturing facilities in our industry are subject to planned and unplanned production shutdowns, turnarounds, outages, and other disruptions. Unanticipated downtime can occur for a variety of reasons, including equipment breakdowns, interruptions in the supply of raw materials (most recently associated with the pandemic and disruptions of global supply chains and ocean container traffic), power failures, sabotage, natural disasters such as hurricanes, typhoons, and floods, or other hazards associated with our production processes. For example, we experienced unplanned downtime at our (now closed) La Porte facility as a result of Hurricane Harvey that struck the U.S. Gulf Coast in 2017.

If we were to experience significant unplanned downtime at any of our key facilities in the future, such an event may be either uninsurable or not economically insurable, and we may not have adequate quantities of product available to sell, which could have a material adverse effect on our business, financial condition, or results of operations. Alternative facilities with sufficient capacity to replace facilities with unplanned downtime may not be available, production at such alternative facilities may cost substantially more or it may take a significant time to increase production or qualify with our customers, any of which could negatively impact our business, financial condition, or results of operations. Additionally, long-term production disruptions may cause our customers to seek alternative supply, which could further adversely affect our profitability.

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We sell our products on credit and some of our customers, in the aggregate, represent a credit risk to us.

Most of our customers purchase our products on credit, which we generally extend to our customers for an average of 30 to 60 days, depending on the product being purchased, the location of the sale and the credit quality of the customer. Some of our customers operate with limited liquidity and scale in highly competitive industries that may make them more susceptible to financial difficulties. In the past, we have had a number of customers file for bankruptcy protection and have pursued legal remedies to recover amounts due to us or to defend payments received prior to the customer's bankruptcy. In addition, our international customers also present potential collection risk in foreign jurisdictions where collection actions may be more difficult, or where there may be legal constraints to recover amounts due. As a result, if a customer becomes unwilling or unable to make payments, we may not be able to collect all or any of the amounts owed to us, which could have a material adverse effect on our business, financial condition, or results of operations.

Additionally, it is possible that unfavorable economic conditions or other factors could exacerbate the risks of non-payment by our customers and cause a number of our customers to default during a particular period of time, which could have a material adverse effect on our business, financial condition, or results of operations.

We operate in industries which are subject to technological change. Our failure to timely or adequately respond to those changes, including product substitution, may render existing technology less competitive or obsolete and our operating results may suffer.

The market for our products is characterized by changing technology and continuing process development. The success of our business will depend in part upon our ability to maintain and enhance our technological capabilities, develop and market future products that meet changing customer needs, and successfully anticipate or respond to technological changes on a cost-effective and timely basis. We can provide no assurance that we will effectively respond to the technological requirements of the changing markets we serve, and we may not have sufficient cash flows to make additional capital expenditures that may be required as a result of those changes. Failure to respond to technological changes on a cost-effective and timely basis could have a material adverse effect on our business, financial condition, or results of operations.

The United Kingdom's withdrawal from the European Union may have a negative effect on global economic conditions, financial markets, and our business.

We are a multinational company with worldwide operations, including significant business operations in Europe. Following a national referendum and enactment of legislation by the government of the United Kingdom, the U.K. formally withdrew from the European Union on January 31, 2020. Pursuant to U.K. legislation, namely The European Union (Withdrawal) Act 2018 (as amended), certain EU laws were transposed into U.K. law. On December 24, 2020, the U.K. and EU agreed to a trade deal (the "Trade and Cooperation Agreement") which was ratified by the U.K. on December 30, 2020. While the Trade and Cooperation Agreement avoided a "no deal" exit from the EU, there are still a number of areas of uncertainty in connection with the future of the U.K. and its relationship with the EU and the application and interpretation of the Trade and Cooperation Agreement, and matters related thereto (and other matters related to the U.K. withdrawal) may take several years to be clarified and resolved. In particular, the Trade and Cooperation Agreement only covers the trade of goods and, therefore, uncertainty remains over the U.K.'s long-term trading of services relationship with the EU. The U.K. may still face barriers to trade and commerce (including the provision of financial and other services) with the Member States of the EU and may still lose its present rights to the global trade deals negotiated by the EU on behalf of its members, which may in turn diminish overall economic activity between the U.K. and the EU and the U.K. and its

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global trade partners. Given this uncertainty and the range of possible outcomes, it is currently impossible to determine the impact that the U.K.'s exit from the EU, the Trade and Cooperation Agreement and the nature and extent of U.K. government responses in the formulation of fiscal and monetary policies, and/or any related matters may have on general economic conditions in the U.K. and elsewhere.

Developments related to the above, or the perception that any of them could occur, have had, and may continue to have a material adverse effect on global economic conditions and the stability of global financial markets, and could significantly reduce global market liquidity and restrict the ability of key market participants to operate in certain financial markets. Asset valuations, currency exchange rates, and credit ratings may be especially subject to increased market volatility. Lack of clarity around the application or rules and regulations, either those covered by The European Union (Withdrawal) Act 2018 (as amended), the Trade and Cooperation Agreement or otherwise, including financial laws and regulations, tax and free trade agreements, intellectual property rights, supply chain logistics, environmental, health and safety laws and regulations, immigration laws, and employment laws, could decrease foreign direct investment in the U.K., increase costs, depress economic activity, and restrict access to capital. If the U.K. and the EU are unable to negotiate acceptable withdrawal terms or if other EU member states pursue withdrawal, barrier-free access between the U.K. and other EU member states or among the European Economic Area overall could be diminished or eliminated. Any of these factors could have a material adverse effect on our business, financial condition, and results of operations.

Our international operations subject us to currency exchange and import-export risks, which may adversely affect our sales, and results of operations.

For all of our operations, except in the PRC, the functional currency is the U.S. dollar. However, we conduct business in euros, British pounds sterling, Brazilian reais, Chinese yuan ("CNY"), Mexican pesos and other foreign currencies. Currency devaluation relative to the U.S. dollar may make our products priced in U.S. dollars more expensive relative to products priced in the local currency, and foreign customers may reduce purchases of our products as a result.

The global supply for our raw materials generally is priced in, or relative to, U.S. dollars, and therefore, we generally do not have significant exposure to currency exchange risk for those expenses. However, many of the costs associated with our operations located outside the United States are denominated in local currencies, and the increased strength of local currencies against the U.S. dollar in countries where we maintain foreign operations has resulted, and in the future, could result, in higher effective operating costs for labor and other costs, which has and could in the future reduce our earnings and adversely affect our cash flows. Certain of our operating costs, predominantly payroll and rent, are frequently paid in local currencies in foreign jurisdictions. Changes in currency exchange rates also affect our working capital needs in local currencies to support our foreign operations, and therefore could adversely affect our liquidity required to support local operations.

Generally, we maintain some of our liquidity in foreign currencies, primarily due to local regulatory requirements in countries such as the PRC and Brazil, for example, or for immediate local currency needs. We do not currently hedge our foreign exchange risk with derivatives and foreign exchange forwards but look for opportunities to cause natural offsets. We can provide no assurance that fluctuations in foreign exchange rates will not have a negative effect on our business, financial condition, or results of operations.

The cross-border sale of certain of our products to customers can be subject to tariffs in key markets, such as the PRC. Furthermore, a number of our customers' products are subject to tariffs, which can decrease our customers' production levels, aid certain of our competitors that manufacture in jurisdictions where there are low or no tariffs for end uses, and generally negatively impact purchases of our products. For example, our businesses that supply fiber to the apparel market, including our nylon, spandex, and polyester fiber businesses, are especially sensitive to changes in tariffs. While tariffs are relatively

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transparent, they remain subject to uncertainty and unexpected changes. In addition, certain of our products and our customers' products are vulnerable to trade disruptions due to anti-dumping or countervailing duty trade actions filed by individual countries. Similarly, our cross-border sales can be subject to free trade agreements or preference programs under which we benefit from the agreements. We can provide no assurance that changes in tariffs, including any impacts of anti-dumping or countervailing duty actions, free trade agreements, or preference programs will not have a material impact on our business in the future.

We may be subject to product liability claims if people or property are harmed by the products we manufacture, sell, or handle.

We manufacture, sell, and handle products that may expose us to product liability claims relating to personal injury, death, or property damage, and could require product recalls or other actions. There is the risk that our quality control procedures may not detect all defects and the reputation of our brands could be damaged by the marketing of defective products, especially in case of serious defects such as products containing harmful substances causing physical harm or other health problems. Such serious defects or a prolonged impact on product quality could also lead to a significant decline in sales and expose us to liability for regulatory violations or damage claims. Significant product liability claims may also lead to increased scrutiny by international, national, or local regulatory agencies.

Because third parties also use our products to make and sell other products, in some cases including consumer products, we may also have exposure to product liability claims based on these third parties' uses, particularly where agreements with third parties do not indemnify us for product liability or they do not have sufficient protection from product liability claims. Additionally, claims against us could also arise as a result of the misuse of some of our chemical products, such as BDO, or as a result of their use in a manner different than the intended use.

Although we plan to maintain liability insurance for certain types of product liability claims under our primary casualty and excess liability insurance program, we cannot be certain that our coverage will be adequate for liabilities actually incurred or that insurance will continue to be available to us on economically reasonable terms, or at all. A successful product liability claim against us could have a material adverse effect on our business, financial condition, or results of operations.

Our insurance may not fully protect us from loss.

We purchase a portfolio of insurance policies that transfers risk above reasonable deductibles to various third-party underwriters. These policies include statutory, contractual, and discretionary liability coverages with most backed by a substantial excess liability umbrella. Property damage and business interruption insurance with retention levels reflecting management and shareholder risk tolerance is purchased for all manufacturing facilities and business support offices. We can provide no assurance that we will be able to obtain or maintain insurance coverage that we consider appropriate for our needs at a reasonable cost, or at all.

Distributions of cash from our co-investments may be restricted or shared control of co-investments may delay decisions, actions, or payment of dividends by the co-investments.

We conduct a portion of our operations through co-investments in joint ventures. Our ability to receive distributions from co-investments may be restricted by a number of factors, including the applicable laws of local jurisdictions, the co-investment agreement, and debt agreements with third parties. Additionally, in the event that any of our co-investors do not observe their obligations, it is possible that the affected co-investment would not be able to operate in accordance with our business plans or that we would be required to increase our level of commitment in order to give effect to such plans. As with any such co-

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investment arrangements, differences in views among the co-investors may result in delayed decisions or in failures to agree on major matters, potentially having a material adverse effect on the results of operations and financial condition of the co-investments and, in turn, our business, financial condition, or results of operations.

Our businesses that are joint ventures or co-investments are managed under operating agreements where we do not have sole control of the decision-making process, and we cannot mandate decisions or ensure outcomes.

We typically oversee our joint ventures and/or co-investments under the terms of their operating agreements by participating in the following activities: (1) representation on the respective governing boards of directors, (2) regular oversight of financial and operational performance and controls and establishing audit and reporting requirements, (3) hiring of management personnel, and (4) other regular and routine involvement with our partners. Notwithstanding this regular participation and oversight, our joint ventures or co-investments are externally operated, and our partners also participate in the management of these businesses. They may have business or economic interests that divert their attention from the joint venture or co-investment, or they may prefer to operate the business, make decisions, or invest resources in a manner that is contrary to our preferences. Since material business decisions must be made jointly with our partners and operations are run externally, we cannot mandate decisions or ensure outcomes, which exposes us to potential liability.

We may not be able to obtain debt to fund our operations and contractual commitments on favorable terms, or in sufficient amounts.

We may seek to incur debt in the future or obtain funds from existing borrowing facilities. Our ability to obtain necessary funds is dependent on numerous factors, some of which are beyond our control. These factors include the availability of credit in the global capital markets, our financial performance or credit ratings and the ability of counterparties to provide funds under existing borrowing facilities. The inability to obtain the funds we need could have a material adverse effect on our business, financial condition, or results of operations.

Our business could suffer if we are unsuccessful in negotiating new collective bargaining agreements.

As of December 31, 2020, approximately 47% of our global workforce was represented by labor unions, with 87% of those employees' union contracts expiring within one year. Any consultative procedures with our employees may limit our flexibility with respect to employment policy or economic reorganization and could limit our ability to respond to market changes efficiently. Additionally, we may not be able to negotiate acceptable new collective bargaining agreements, which could result in labor disputes. We may also become subject to material cost increases or additional work rules imposed by labor agreements, which could increase expenses in absolute terms or as a percentage of sales.

We can provide no assurance that we will be successful in negotiating new collective bargaining agreements, that such negotiations will not result in significant increases in the cost of labor or that a breakdown in such negotiations will not result in the disruption of operations. In addition, we can provide no assurance that the existing non-union facilities will not seek to affiliate with any number of unions, which could result in increased labor costs and potential operational disruptions. The possibility also exists that the current local unions may seek to affiliate with a different labor organization, which could also increase our costs.

Significant changes in pension fund investment performance, assumptions relating to pension obligations, changes in accounting rules, or changes in pension funding requirements could

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have a material adverse effect on the funded status of our pension plans, pension cost, and required contribution levels.

Pension fund assets are significantly impacted by market risk and investment selection. Pension obligations are significantly impacted by market interest rates, salary trends, and other actuarial assumptions. If significant changes in pension fund investment performance occur which reduce the fair value of pension assets, or if changes in assumptions occur that increase our pension obligation, the plan funded status, pension cost, and required contributions could be materially and adversely affected. In addition, the amount and timing of our pension funding obligations can be influenced by funding requirements in the countries in which we sponsor pension plans. If we are required to make significant additional contributions, or make changes to accounting rules to our pension plans, a material adverse effect on our business, financial condition, or results of operations could result.

We could be materially adversely affected by loss of key personnel.

We depend on the continued services of key personnel, including our senior management and regional management personnel. Our success also depends on our ability to recruit, retain, and motivate highly skilled sales and marketing, engineering, and research and development personnel. If we fail to retain and recruit necessary personnel, our ability to effectively manage our business could suffer. Some of our facilities have experienced high rates of attrition, and hiring can be highly competitive in those labor markets. Although we believe that we could replace our key employees within a reasonable time should the need arise, the loss of key personnel could have a material adverse effect on our business, financial condition, or results of operations.

We are exposed to the risk of rising labor costs.

As of December 31, 2020, we employed approximately 2,600 full-time (or equivalent) employees, and personnel costs generally represent a significant portion of our cost base. We may in the future be forced to raise our wages due to new labor laws or social security regulations, including pressure exerted by trade unions or general wage increases across the industry or in any particular region in which we operate. An increase in labor costs may affect our profitability and our ability to compete effectively with competitors and may have a material adverse effect on our business, financial condition, or results of operations.

Our operations and assets in the PRC are subject to significant political and economic uncertainties.

Changes in laws of the PRC and regulations, or their interpretation, or the imposition of confiscatory taxation, restrictions on currency conversion, imports and sources of supply, devaluations of currency, or the nationalization or other expropriation of private enterprises could have a material adverse effect on our business, financial condition, or results of operations. Under its current leadership, the government of the PRC has been pursuing economic reform policies that encourage private economic activity and greater economic decentralization. We can provide no assurance, however, that the government of the PRC will continue to pursue these policies, or that it will not significantly alter these policies from time to time without notice. For example, the Company previously owned a manufacturing facility in QingPu, Shanghai, which closed in 2017 due to redevelopment by the local government of the land on which the manufacturing facility was located.

Additionally, if we decide to declare dividends and repatriate funds from our operations in the PRC, we will be required to comply with the procedures and regulations of applicable law in the PRC, which may significantly limit our ability to extract cash from our operations in the PRC. Any changes to these procedures and regulations, or our failure or inability to comply with these procedures and regulations,

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could prevent us from making dividends and repatriating funds from our operations in the PRC, which could adversely affect our business, financial condition, or results of operations.

The control of currency conversion and repatriation of funds by the government in the PRC may affect our liquidity.

The government of the PRC imposes controls on the convertibility of the CNY into foreign currencies and, in certain cases, the remittance of currency out of the PRC. Substantially all in-country domestic revenues of our subsidiary organized under the laws of the PRC are denominated in CNY. Export sales of our subsidiary organized under the laws of the PRC are denominated primarily in U.S. dollars. Under existing foreign exchange regulations in the PRC, payments of current account items, including profit distributions, interest payments, and trade-related payments, can be made in foreign currencies without prior approval from the PRC's State Administration of Foreign Exchange ("SAFE") by complying with certain procedural requirements. However, for any PRC company, dividends can be declared and paid only out of the retained earnings of that company under PRC law. Changes to these foreign exchange regulations and controls may restrict the ability of our subsidiary organized under the laws of the PRC to remit sufficient foreign currency to pay dividends or to make other payments to us, or otherwise satisfy its foreign currency-denominated obligations.

Under the existing exchange restrictions, cash generated from the operations of our subsidiary organized under the laws of the PRC may be used to pay dividends to its offshore parent company and pay its employees who are located outside the PRC in a currency other than the CNY after the examination of authorized banks. Without the examination by authorized banks, cash generated from the operations of our subsidiary organized under the laws of the PRC may not be used to pay off debt in a currency other than the CNY owed by it to entities outside the PRC or make other capital expenditures outside the PRC in a currency other than the CNY. Under certain circumstances, the authorized banks may also seek guidance from SAFE for repatriation of funds of our subsidiaries. The PRC government may also at its discretion, restrict access in the future to foreign currencies for current account transactions. In the current regime of stringent regulation of outflow of capital, CNY outflow may face the same level of scrutiny by the PRC government as the outflow of foreign currencies.

Additionally, because repatriation of funds of our subsidiary organized under the laws of the PRC requires the examination by authorized banks, such repatriation could be delayed, restricted or limited. We can provide no assurance that the rules and regulations pursuant to which the authorized banks examine any repatriation of funds will not change in a way that adversely affects the ability of our subsidiary organized under the laws of the PRC to repatriate funds out of the PRC. Future measures, including any additional requirements to repatriate profits earned in the PRC, may increase our regulatory compliance burden. Any limitation on the ability of our subsidiary organized under the laws of the PRC to repatriate funds from the PRC could affect our ability to make payments on the Notes.

Uncertainties presented by the legal system in the PRC could limit the legal protections available to us and subject us to legal risks, which could have a material adverse effect on our business, financial condition, or results of operations.

Our operations in the PRC are subject to applicable PRC laws, rules, and regulations. The legal system in the PRC is a system based on written statutes. Prior court decisions may be cited for reference but have little value as precedents, although the judicial interpretations issued by the Supreme Court of China have binding effect.

Additionally, PRC statutes are often principle-oriented and require detailed interpretations by the enforcement bodies to further apply and enforce such laws. Since 1979, the government of the PRC has been developing a comprehensive system of commercial laws, and considerable progress has been made

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in introducing laws and regulations dealing with economic matters such as foreign investment, corporate organization and governance, commerce, taxation, and trade.

However, the PRC has not developed a fully integrated legal system, and recently enacted laws and regulations may not sufficiently cover all aspects of economic activities in the PRC. In particular, because some of these laws and regulations are relatively new, and because of the limited volume of published court of arbitration decisions and their nonbinding nature (except for the judicial interpretations issued by the Supreme Court of China), the interpretation and enforcement of these laws and regulations involve uncertainties. In addition, the legal system in the PRC is based in part on government policies and internal rules, some of which may not be published on a timely basis or at all, and some of which may have a retroactive effect. As a result, we may not be aware of our violation of these policies and rules until sometime after the violation. Any administrative and court proceedings in the PRC may be protracted, resulting in substantial costs and diversion of resources and management attention. Since administrative and court authorities in the PRC have significant discretion in interpreting and implementing statutory and contractual terms, it may be more difficult to predict the outcome of administrative and court proceedings and the level of legal protection in the PRC than in more developed legal systems. These uncertainties may also impede our ability to enforce the contracts we have entered into in the PRC. As a result, these uncertainties could have a material adverse effect on our business, financial condition, or results of operations.

Material increases in labor costs in the PRC could have a material adverse effect on our business, financial condition, or results of operations.

We currently operate one manufacturing facility in the PRC along with an R&D lab and technology center. In past years, we have experienced increases in labor costs in our manufacturing facility at Foshan, China. We expect increases in the cost of labor in our facilities in the PRC will continue to occur in the future. To the extent we are unable to pass on increases in labor costs to our customers by increasing the prices for our products and services, minimum wage increases or increases in other labor costs could have a material adverse effect on our business, financial condition, or results of operations.

Our business in the PRC could be affected by changes in the economic, political, or social conditions or government policies in the PRC.

The economy in the PRC differs from the economies of most developed countries in many respects, including the amount of government involvement, level of development, growth rate, control of foreign exchange and allocation of resources. While the economy in the PRC has experienced significant growth in the past 30 years, growth has been uneven, both geographically and among various sectors of the economy. We can provide no assurance that the economy in the PRC will continue to grow, or that, if there is growth, this growth will be steady, or that, if there is a slowdown, this slowdown will not have a negative effect on our business in the PRC. In addition, we can provide no assurance that the various macroeconomic measures and monetary policies adopted by the PRC government to guide economic growth and the allocation of resources will be effective in sustaining the growth rate of the PRC economy. If growth in the PRC stagnates or there is an economic downturn in the PRC, this could have a material adverse effect on our business, financial condition, or results of operations.

If our land use rights in the PRC are revoked, we would have limited operational capabilities in the PRC.

Under PRC law, land is owned by the state or rural collective economic organizations. The state issues to the land users the land use right certificate. Land use rights can be revoked, and the land users forced to vacate at any time when redevelopment of the land is in the public interest. For example, the Company previously owned a manufacturing facility in QingPu, Shanghai, which closed in 2017 due to the

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redevelopment by the local government of the land on which the facility was located. The public interest rationale is often interpreted quite broadly in the PRC and the process of land expropriation may not be transparent. We rely on these land use rights, and the loss of such rights could have a material adverse effect on our business, financial condition, or results of operations.

We are subject to customs, advertising, consumer protection, privacy, zoning and occupancy and labor and employment laws that could require us to modify our current business practices, incur increased costs or harm our reputation if we do not comply.

We are subject to numerous laws and regulations, including those related to employment, customs, truth-in-advertising, consumer protection, general privacy, and the protection of personal data (including the European General Data Protection Regulation (the "GDPR"), which became effective in May 2018), data privacy, identity theft, online privacy, and unsolicited commercial communication. For example, the GDPR requires us to have unambiguous consent given by the data subject for resource lists and email marketing, and all agreements with third party data processors also need to be reviewed and updated as necessary. If these regulations were to change or were violated by our management, associates, suppliers, buying agents, or trading companies, the costs of certain goods could increase, we could experience delays in shipments of our products, be subject to fines or penalties, or suffer reputational harm, any of which could reduce demand for our products and hurt our business, financial condition, or results of operations.

In addition, the importance of and regulations related to data privacy, security, and consumer protection law-making are accelerating globally. In particular, in Europe, compliance with GDPR will require additional resources and changes to our processes and policies which will increase costs. The GDPR also increases the fines that can be imposed by the data protection authorities for non-compliance with these EU data protection laws. In the PRC, the China Cyber Security (CSL) regulations passed in 2016 dictate how companies should approach security and privacy, and compliance with these regulations is still subject to guidance from relevant Chinese authorities; accordingly, we cannot guarantee that our implementation activities will ensure complete compliance. Violations of these laws, or allegations or investigations of allegations of such violations, could disrupt our business, may lead to criminal and civil penalties and other remedial measures, and have a material adverse effect on our results of operations, financial condition, cash flows, and business prospects. Additionally, the interpretation and application of consumer protection and data privacy and security laws in the United States, Europe and elsewhere are often uncertain, contradictory, and in flux, and we are unable to predict the ultimate cost of compliance with these requirements or their effect on our operations. It is possible that these laws may be interpreted or applied in a manner that is adverse to us or otherwise inconsistent with our practices, which could result in litigation, regulatory investigations, and potential legal liability or require us to change our practice in a manner adverse to our business. Failure to define clear roles and responsibilities or to regularly communicate with and train our associates may result in noncompliance with applicable laws and regulations. We may be required to make significant expenditures or modify our business practices to comply with existing or future laws and regulations, which may increase our costs and materially limit our ability to operate our business and have a material adverse effect on our business, financial condition, or results of operations.

The public perception and reputation of our brands could be damaged if we or our raw material suppliers fail to comply with applicable labor laws or recognized ethical standards or other applicable laws, or if the public develops an impression that violations of these laws or standards are occurring.

We take various steps to ensure that we and our suppliers of products comply with applicable labor and social welfare laws, as well as acceptable social standards. For example, we have a 'Compliance with Law' clause in our purchase agreements requiring suppliers to comply with applicable laws and regulations, we conduct supplier compliance audits, including facility walkthroughs, for environment, health and safety or social concerns, and we lay out our expectations to suppliers in our code of conduct. Nonetheless, from

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time to time, we or our suppliers may not be in compliance with local labor law or recognized ethical standards. If it emerges that we or our suppliers have not complied with applicable labor laws or recognized ethical standards, or, if the public perceives that such an event is occurring, whether or not it is, the public perception and reputation of us and our brands could suffer, possibly damaging customer relationships and causing a considerable decrease in sales. In addition, changing a supplier following discovery of a violation could result in additional costs and supply shortages or disruptions. Any of these events could have a material adverse effect on our business, financial condition, or results of operations.

The reputation of our brands is an important company asset and is key to our ability to remain a leader in the apparel and textile market.

The reputation of our brands is an important company asset and is key to our ability to remain a leader in the apparel and textile market and to attract and retain customers. Negative publicity regarding our company or actual, alleged, or perceived issues regarding one of our products or services, particularly given the high-cost-of-failure nature of our products and services, could harm our relationship with customers. Failure to protect the reputation of our brand may adversely impact our credibility. In addition, in certain jurisdictions we may engage sales agents in connection with the sale of certain of our products and services. It is difficult to monitor whether such agents' representation of our products and services is accurate. Poor representation of our products and services by agents, or entities acting without our permission, could have an adverse effect on our reputation and our business.

Failure to maintain the reputation of our brands could negatively impact our competitive position.

Our financial performance is closely linked to the success and reputation of our brands, particularly the LYCRA® brand, which in turn depends on factors such as design and quality of the merchandise, the image of our points of sale, our relationship with the public, and our marketing policy. Products or communications policies that do not adequately reflect the brands' image, inappropriate conduct by our direct customers, staff, suppliers, or distributors, or entities acting without our permission, or any circulation of damaging information to the media could affect our brand recognition and image and have a material adverse effect on our business, financial condition, or results of operation. If we are unable to effectively manage the transition from marketing and selling certain of our products and services in association with the LYCRA® brand, our business, financial condition, and results of operations may be materially adversely affected.

Our operations rely on certain external vendors.

We rely on certain external vendors to provide products and services necessary to maintain our day-to-day operations at certain of our locations. These third-party vendors are sources of operational and informational security risk to us, including risks associated with operational errors, information system interruptions or breaches and unauthorized disclosures of sensitive or confidential information. If these vendors encounter any of these issues, or if we have difficulty communicating with them, we could be exposed to disruption of operations, loss of service or connectivity to customers, reputational damage, and litigation risk that could have a material adverse effect on our business, financial condition, or results of operations.

Our operations are exposed to risk that these vendors will not perform in accordance with the contracted arrangements under service level agreements. We have selected those external vendors retained directly by us carefully. In some cases, some vendors have been selected by DuPont to provide support services to our Waynesboro, Virginia property where DuPont retains ownership because of ongoing environmental remediation projects being conducted by DuPont in connection with the 2003 Purchase Agreement. We own and operate the manufacturing facilities at the property and we lease the property from DuPont

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pursuant to a ground lease. Whether we or DuPont have contracted with the vendors, we do not control the actions of these vendors.

The failure of an external vendor to perform in accordance with the contractual arrangements under service level agreements because of changes in the vendor's organizational structure, financial condition, support for existing products and services or strategic focus or for any other reason, could be disruptive to our operations, which could have a material adverse effect on our business, our financial condition, or results of operations. Replacing these external vendors could also entail significant delay and expense. We also could be adversely affected to the extent such an agreement is not renewed by the third-party vendor or DuPont or is renewed on terms less favorable to us.

Risks related to our separation from INVISTA

We may not be able to enforce claims with respect to the representations and warranties that INVISTA has provided to us under the Acquisition Agreement and the Taiwan Acquisition Agreement and we may be subject to claims by INVISTA under such agreements.

In connection with the Acquisition and the Taiwan Acquisition, INVISTA gave certain customary representations and warranties related to their shares, the Company, and the business of the Company under the Acquisition Agreement and the Taiwan Acquisition Agreement. We can provide no assurance that we will be able to enforce any claims against INVISTA relating to breaches of such representations and warranties. INVISTA's liability with respect to breaches of its representations and warranties under the Acquisition Agreement and the Taiwan Acquisition Agreement are limited. Moreover, even if we ultimately succeed in recovering any amounts from INVISTA, we may temporarily be required to bear these losses ourselves. Similarly, INVISTA may assert claims against us pursuant to the terms of the Acquisition Agreement and the Taiwan Acquisition Agreement if they believe us to be in breach of our ongoing obligations thereunder. Any such claim, whether or not valid, could have an adverse impact on our business, financial condition, or results of operations.

The interests of our principal shareholders may conflict with interests of holders of the Notes.

Our equity investors indirectly own the entire share capital of the Company. As a result, our shareholders have and will continue to have, directly (including via the appointment of directors and managers) or indirectly, the power to affect our legal and capital structure as well as the ability to elect and change our management and to approve other changes to our operations and to influence the outcome of matters requiring action by our shareholders. Our shareholders' interests in certain circumstances may conflict with the interests of holders of the Notes, particularly if we encounter financial difficulties or are unable to pay our debts when due. For example, the shareholders could refuse to contribute additional capital or could vote to cause us to incur additional indebtedness. Certain of our shareholders are in the business of making investments in companies and may acquire and hold interests in businesses that compete directly or indirectly with us. Our equity investors may also pursue acquisition opportunities that are complementary to our business and, as a result, those acquisition opportunities may not be available to us. In addition, our shareholders have held, hold, or may hold interests in suppliers or customers of the Company. Our equity investors and their affiliates could also have an interest in pursuing acquisitions, divestitures (including one or more divestitures of all or part of our business or sales of our shares which would result in changes to our shareholding structure), financings, dividend distributions, or other transactions that, in their judgment, could enhance their equity investments, although such transactions might involve risks to you as a holder of Notes.

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Risks related to the Notes and the Guarantees

We are subject to significant restrictive debt covenants, which can limit our operating flexibility.

The Indenture contains covenants significantly restricting the ability of the Issuers and their restricted subsidiaries, among other things, to:

- incur or guarantee additional indebtedness;
- create or incur certain liens;
- make certain payments, including dividends or other distributions;
- make certain investments;
- sell, lease, or transfer certain assets, including capital stock of restricted subsidiaries;
- enter into certain transactions with affiliates;
- create encumbrances or restrictions on the payment of dividends or other distributions, loans, or advances to and on the transfer of assets to the Issuers or any restricted subsidiary;
- consolidate or merge with other entities, or sell all or substantially all of the assets of the Issuers and its restricted subsidiaries; and
- impair the security interests in the Collateral securing the Notes.

All of these limitations are subject to a number of important qualifications and exceptions including usual exemptions incurred in the normal course of business and certain of these limitations will be suspended with respect to the Notes if and when, and for so long as, the Notes are rated investment grade. These covenants could limit our ability to finance our future operations and capital needs and our ability to pursue acquisitions and other business activities that may be in our interest.

Our Revolving Credit Facility requires us to comply with a consolidated net leverage ratio (defined as the aggregate outstanding indebtedness of the Issuers and its Restricted Subsidiaries (excluding certain hedging obligations) at such date to Consolidated EBITDA for the period of the most recent four consecutive financial quarters ending prior to the date of determination of such ratio, each such term as defined in the Revolving Credit Facility Agreement). If the aggregate amount of all outstanding utilizations (including of any ancillary facilities) is less than 25% of the total commitments under the Revolving Credit Facility Agreement at that time on the last day of the calendar quarter, we are not required to satisfy this financial covenant and no default or event of default will have occurred. Our ability to meet this test can be affected by events beyond our control, and we cannot assure you that we will meet it. During 2020, we received a waiver from the lenders under the Revolving Credit Facility Agreement to provide that the financial covenant referred to above would not apply for the quarter ended June 30, 2020. A breach of any of those covenants, ratios, tests, or restrictions could result in a restriction on the ability to make new drawings under the Revolving Credit Facility or an event of default under our Revolving Credit Facility. Upon the occurrence of any event of default under our Revolving Credit Facility, subject to applicable cure periods and other limitations on acceleration or enforcement, the relevant creditors could cancel the availability of the facility and elect to declare all amounts outstanding under the Revolving Credit Facility, together with accrued interest, immediately due and payable. In addition, any default under the Revolving Credit Facility could lead to an event of default and acceleration under other debt instruments that contain cross-default or cross-acceleration provisions, including the Indenture. If our creditors, including the creditors under our

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Revolving Credit Facility, accelerate the payment of those amounts, we cannot assure you that our assets and the assets of our subsidiaries would be sufficient to repay in full those amounts, to satisfy all other liabilities of our subsidiaries which would be due and payable, and to make payments to enable us to repay the Notes, in full or in part. In addition, if we are unable to repay those amounts, our creditors could enforce against any Collateral granted to them to secure repayment of those amounts.

The Issuers are holding companies with no material assets or sources of revenue of their own and will depend on cash from their operating subsidiaries to make payments on the Notes.

The Issuers are holding companies with no independent business or revenue-generating operations of their own and the Issuers' only material assets are the equity interest they hold in their respective subsidiaries. The capacity of the Issuers to make payments under the Notes depends on the ability of their respective subsidiaries to distribute cash to the Issuers. If the Issuers' subsidiaries do not distribute cash which can be used to make scheduled payments on the Notes, the Issuers will not have any other source of funds that would allow them to make payments to the holders of the Notes. The amount of dividends and distributions available to the Issuers will depend on the profitability and cash flows of their subsidiaries. The ability of these subsidiaries to make distributions, loans, or advances to their respective parent companies may be limited by the laws of the relevant jurisdictions in which such subsidiaries are organized or located. In addition, the subsidiaries of the Issuers that do not guarantee the Notes have no obligation to make payments with respect to the Notes.

Each of our subsidiaries is a distinct legal entity and, under certain circumstances, legal and contractual restrictions may limit the Issuers' ability to obtain cash from their subsidiaries. Applicable tax laws may also subject such payments to further taxation. While the Indenture and the Revolving Credit Facility Agreement limit the ability of subsidiaries to incur contractual restrictions on their ability to pay dividends or make other intercompany payments to the Issuers, these limitations are subject to certain significant qualifications and exceptions and do not cover contractual restrictions existing on the Acquisition Closing Date. We can provide no assurance that arrangements with our subsidiaries, the funding permitted by the agreements governing existing and future indebtedness of our subsidiaries, and our results of operations and cash flow generally will provide us with sufficient dividends, distributions, or loans to fund payments on the Notes. In the event that the Dutch Co-Issuer does not receive distributions or other payments from its subsidiaries, we may be unable to make required payments, including with respect to principal, interest, and additional amounts, if any, on the Notes.

The Notes and each Guarantee are structurally subordinated to the liabilities of Non-Guarantor Subsidiaries.

Certain of our subsidiaries will not guarantee the Notes, including our subsidiary organized under the laws of the PRC.

Unless a subsidiary guarantees the Notes, such entity will not have any obligation to pay amounts due on the Notes or to make funds available for that purpose. Accordingly, holders of the Notes should only rely on the Guarantees of the Notes to provide credit support in respect of payments of principal or interest on the Notes.

Generally, holders of indebtedness of, and trade creditors of, Non-Guarantor Subsidiaries, including lenders under bank financing agreements, are entitled to payments of their claims from the assets of these subsidiaries before these assets are made available for distribution to any direct or indirect shareholder of any such subsidiary, including the Issuers and the Guarantors. Accordingly, in the event that any of the Non-Guarantor Subsidiaries becomes insolvent, liquidates, or otherwise reorganizes:

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- the creditors of the Guarantors or the Issuers (including the holders of the Notes) will have no right to proceed against such Non-Guarantor Subsidiary's assets; and
- creditors of such Non-Guarantor Subsidiary, including trade creditors, will generally be entitled to payment in full from the sale or other disposal of the assets of such entity before any direct or indirect shareholder, including the Issuers and the Guarantors, will be entitled to receive any distributions from such subsidiary.

As such, the Notes and each Guarantee are structurally subordinated to the creditors (including trade creditors) and any preferred stockholders of our Non-Guarantor Subsidiaries.

The Notes are secured only to the extent of the value of the assets that have been granted as Collateral, and in the event that the security interests in the Collateral are enforced, the holders of the Notes will only be paid once the lenders under the Revolving Credit Facility and any other holders of additional super-priority secured debt are repaid in full.

The Notes are secured only by the Collateral. If we default on the Notes, the holders of the Notes will be secured only to the extent of the value of the assets underlying their security interest. Not all of our assets secure the Notes, and we, the Security Agent, and the Trustee are not obligated to take action to perfect all liens on assets that do secure the Notes. See "—It may be difficult to realize the value of the Collateral." Assets of certain subsidiaries of the Issuers secure the Revolving Credit Facility, but do not secure the Notes due to limitations under local law. In the future, the obligations to provide additional guarantees and grant additional security over assets, or a particular type or class of assets, is subject to certain security principles. The Agreed Security Principles set out a number of limitations on the rights of the holders of Notes to require granting of, or payment or enforcement under, a guarantee or security in certain circumstances. The operation of the Agreed Security Principles may result in, among other things, the amount recoverable under any guarantee or security provided by any subsidiary being limited or security not being granted over a particular type or class of assets. Accordingly, the Agreed Security Principles may affect the value of the Guarantees and security provided by Parent and the Subsidiary Guarantors. The validity and enforceability of the Guarantees and security may also be affected by local law limitations. See "*—Corporate benefit, financial assistance, capital maintenance and liquidity protection laws, and other limitations on the Guarantees and security may adversely affect the validity and enforceability of the Guarantees and security granted by the Guarantors.*"

Furthermore, the Intercreditor Agreement requires proceeds from the enforcement of the security interests in the Collateral and certain distressed disposals to be applied to repay the claims of the lenders under the Revolving Credit Facility, counterparties to certain hedging obligations, and other holders of additional super-priority indebtedness in priority to the Notes. Under the terms of the Indenture, the amount of additional indebtedness that can be secured in priority to the Notes could be substantial. As a result, holders of Notes will receive less from the proceeds of security in an enforcement or insolvency scenario than if they were not required to share proceeds.

The grant of Collateral to secure the Notes might be challenged or voidable in a bankruptcy or insolvency proceeding.

The grant of Collateral in favor of the Security Agent including any security interest may be voidable by the grantor or by an insolvency trustee, liquidator, receiver or administrator, or by other creditors, or may be otherwise set aside by a court in a bankruptcy or insolvency proceeding, or be unenforceable if certain events or circumstances exist or occur, including, among others, if the grantor is deemed to be insolvent at the time of the grant, or if the grant permits the secured parties to receive a greater recovery than if the grant had not been given and an insolvency proceeding in respect of the grantor is commenced within a legally specified period following the grant.

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For example, if certain Collateral is granted after the Issue Date and such Collateral secures indebtedness incurred by such grantor prior to such date and the grantor of such security interest were to become subject to a bankruptcy or winding up proceeding after such date, then any mortgage or security interest in Collateral delivered after the Issue Date would face a greater risk than security interests in place on the Issue Date of being avoided by the grantor or by its trustee, receiver, liquidator, administrator or similar authority, or otherwise set aside by a court, as a preference under insolvency law. To the extent that the grant of any security interest is voided or set aside, holders of the Notes would lose the benefit of the Collateral or the security interest.

The Collateral may not be sufficient to secure the obligations under the Notes.

The Notes are secured by security interests in the Collateral, which Collateral will also secure the obligations under the Revolving Credit Facility Agreement, certain hedging obligations, cash management obligations and certain other indebtedness. Upon a refinancing of the Revolving Credit Facility, or if the lenders under the Revolving Credit Facility Agreement consent to an increase of the commitments under the Revolving Credit Facility Agreement, or if we exercise our right to incur debt that is senior in right of payment to the Notes, the amount of outstanding indebtedness that will benefit from super-priority interests in the Collateral may be increased, subject to the limits imposed under the Indenture. The Collateral may also secure additional debt ranking pari passu with the Notes to the extent permitted by the terms of the Indenture, the Revolving Credit Facility Agreement, and the Intercreditor Agreement. The rights of the holders of the Notes to the Collateral may therefore be diluted by any increase in the super-priority debt secured by the Collateral, an increase in obligations secured on a pari passu basis with the Notes or a reduction of the Collateral securing the Notes.

The book value of the Collateral should not be relied on as a measure of realizable value for such assets. No appraisals of any of the Collateral have been prepared by us or on our behalf in connection with the Offering. The fair market value of the Collateral is subject to fluctuations based on factors that include, among others, our ability to implement our business strategy, whether or not the business is sold as a going concern, the ability to sell the Collateral in an orderly sale, general economic conditions, the availability of buyers, whether any approvals required to purchase the business would be available to a potential buyer, and similar factors. Hence, the amount to be received upon a sale of any Collateral would be dependent on numerous factors, including the actual fair market value of the Collateral at such time, general market and economic conditions, and the timing and the manner of the sale.

We also can provide no assurance that the Collateral will be saleable and, even if saleable, the timing of any liquidation or foreclosure is uncertain. To the extent that liens, rights, or easements granted to third parties encumber assets located on property owned by us, such third parties have or may exercise rights and remedies with respect to the property subject to such liens that could adversely affect the value of the Collateral and the ability of the Security Agent to realize or foreclose on the Collateral. By the nature of our business, some or all of the Collateral may be illiquid and may have no readily ascertainable market value. Also, certain of our contracts include a change of control clause, which may be triggered by enforcement of Collateral and limit the value of the Collateral.

Furthermore, the multi-jurisdictional nature of any foreclosure on the Collateral may limit the realizable value of such Collateral. For example, the bankruptcy, insolvency, administrative, and other laws of the various jurisdictions may be materially different from, or conflict with, each other, including in the areas of rights of creditors, priority of government and other creditors, ability to obtain post-petition interest, and duration of the proceedings.

In the event that a bankruptcy case is commenced by or against us, if the value of the Collateral is less than the amount of principal and accrued and unpaid interest on the Notes and other senior secured obligations, interest may cease to accrue on the Notes from and after the date the bankruptcy petition is

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filed. In the event of a foreclosure, liquidation, bankruptcy, or similar proceeding, we can provide no assurance that the proceeds from any sale or liquidation of the Collateral will be sufficient to pay the obligations due under the Notes.

Corporate benefit, financial assistance, capital maintenance and liquidity protection laws and other limitations on the Guarantees and security may adversely affect the validity and enforceability of the Guarantees and security granted by the Guarantors.

The Guarantors' obligations and the security interests granted in respect of the Notes are subject to certain restrictions to comply with laws of the United States, Brazil, Hong Kong, Mexico, the Netherlands, Singapore, South Korea, Switzerland, and the U.K. Each Guarantee provides the holders of the Notes with a direct claim against the relevant Guarantor. In addition, the Issuers and certain of the Guarantors will secure the payment of the Notes by granting security under the relevant security documents. However, each security interest granted under a security document is limited in scope to the value of the relevant assets subject to that security interest and the Indenture provides that each Guarantee is limited to the maximum amount that can be guaranteed by the relevant Guarantor, without rendering the relevant Guarantee/security interest voidable or otherwise ineffective under the applicable law or without resulting in a breach of any applicable law, and enforcement of each Guarantee and security document would be subject to certain generally available defenses. These laws and defenses include those that relate to corporate benefit, financial assistance, capital maintenance, liquidity protection, fraudulent conveyance or transfer, voidable preference, or similar laws, regulations, or defenses affecting the rights of creditors generally. See "*—It may be difficult for noteholders to enforce their rights across multiple jurisdictions or against several individuals or entities.*"

The Indenture includes general limitation language to the effect that each guarantee granted therein and each security interest granted as well as any other obligation, liability or indemnification under a security document is limited to the maximum amount that can be guaranteed/secured by the relevant guarantor/security provider with respect to the aggregate obligations and exposure of the guarantor/security provider without rendering the relevant guarantee/security interest voidable or otherwise ineffective under the applicable law.

If one or more of these laws and defenses are applicable, a Guarantor may have no liability or decreased liability under its guarantee or the security documents to which it is a party. It is possible that a Guarantor, or a creditor of a Guarantor, the grantor of security interests, or the creditor thereof, or the bankruptcy trustee in the case of a bankruptcy of a Guarantor, or grantor of such security interests, may contest the validity and enforceability of the Guarantor's Guarantee and that the applicable court may determine that the Guarantee or the security interests should be limited or voided. To the extent that agreed limitations on the guarantee obligation apply, the relevant Notes would be to that extent effectively subordinated to all liabilities of the applicable Guarantor and/or grantor, including trade payables of such Guarantor and/or grantor, as applicable. Future Guarantees and/or security interests may be subject to similar limitations.

Furthermore, the payment of dividends to the Issuers will reduce the distributable profits and reserves available to satisfy the obligations under the Guarantees and security documents. We can provide no assurance that we will have distributable profits and reserves available to satisfy the obligations under the Guarantees and security documents, whether or not we pay dividends. In addition, the payment under the Guarantees and the enforcement of security interests under the relevant security documents may require certain prior corporate formalities to be completed, including obtaining an audit report, shareholders' resolutions, and board resolutions.

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It may be difficult to realize the value of the Collateral.

To the extent that the claims against the Issuers exceed the value of the assets securing the Notes and other liabilities, those claims will rank equally with the claims of the holders of any of our other senior unsecured indebtedness and those claims may not be satisfied in full before the claims of our unsecured creditors are paid.

The Collateral securing the Notes is subject to any and all exceptions, defects, encumbrances, liens, and other imperfections permitted under the Indenture, the Revolving Credit Facility Agreement, and the Intercreditor Agreement and accepted by other creditors that have the benefit of security interests in the Collateral securing the Notes from time to time, whether on or after the date the Notes are first issued. The existence of any such exceptions, defects, encumbrances, liens, and other imperfections could adversely affect the value of the Collateral securing the Notes, as well as the ability of the Security Agent to realize or foreclose on such Collateral. Furthermore, the ranking of security interests can be affected by a variety of factors, including the timely satisfaction of perfection requirements, statutory liens, certain statutory preferences, or recharacterization under the laws of certain jurisdictions.

The ability of the Security Agent to enforce on the Collateral located in a particular jurisdiction or governed by the law of a particular jurisdiction is subject to mandatory provisions of the law of such jurisdiction. Enforcement of the Collateral may also be subject to certain statutory limitations and defenses or to limitations contained in the terms of the security documents designed to ensure compliance with applicable statutory requirements.

In addition, the security interest of the Security Agent is subject to practical problems generally associated with the realization of security interests. For example, the Security Agent may need to obtain the consent or approval of a third party or governmental authority to obtain or enforce a security interest in a contract or permit or transfer or sell certain assets. The Security Agent may not be able to obtain any such consent or approval. In addition, the consents and approval of third parties and governmental authorities may not be given when required to facilitate a foreclosure on such assets. Accordingly, the Security Agent may not have the ability to foreclose upon those assets and the value of the security may significantly decrease.

Holders of the Notes' rights in the Collateral may be adversely affected by the failure to perfect security interests in the Collateral.

Under applicable law, a security interest in certain tangible and intangible assets can only be properly perfected, and its priority retained, through certain actions undertaken by the secured party and/or the grantor of the security. The security interests in the Collateral securing the Notes may not be perfected with respect to the claims of the Notes if we, or the Security Agent, fail or are unable to take the actions required to perfect any of these security interests.

Any failure to perfect any security interest in the Collateral may result in the invalidity of the relevant security interest or the holder of the security interest having difficulty enforcing such holder's rights in the Collateral with regard to third parties, including a trustee in bankruptcy and other creditors who claim a security interest in the same Collateral. In addition, applicable law requires that certain property and rights acquired after the grant of a general security interest, such as real property and equipment, only be perfected at or promptly following the time such property and rights are acquired and identified. None of the Trustee or the Security Agent has any obligation to monitor the acquisition of additional property or rights that constitute Collateral or the perfection of, or to take steps to perfect, any security interest in the Notes against third parties.

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The Issuers and the Guarantors will have control over the Collateral securing the Notes, and the sale of particular assets could reduce the pool of assets securing the Notes.

The security documents relating to the Notes will, subject to the terms of the Revolving Credit Facility Agreement and the Indenture, allow the Issuers, the Guarantors, and the other Collateral providers to remain in possession of, retain exclusive control over, freely operate, collect, invest, and dispose of any income from the Collateral securing the Notes to the extent it relates to their assets. So long as no enforcement event has occurred or would result therefrom, the Issuers, the Guarantors, and the other Collateral providers may, among other things, without any release or consent by the Security Agent, conduct ordinary course activities with respect to the Collateral, such as selling, factoring, abandoning, or otherwise disposing of the Collateral and making ordinary course cash payments, including repayments of indebtedness.

Holders of the Notes may not control certain decisions regarding the Collateral.

The Notes are secured by the same Collateral securing the obligations under the Revolving Credit Facility Agreement, except that, the Revolving Credit Facility is secured by certain assets that cannot secure the Notes due to local law limitations. In addition, under the terms of the Indenture, we are permitted to incur significant additional indebtedness and other obligations that may be secured by the Collateral.

Pursuant to the Intercreditor Agreement, lenders under the Revolving Credit Facility Agreement, providers of certain additional super-priority indebtedness, certain hedging, cash management obligations and certain other indebtedness, the Security Agent, any receiver and certain creditor representatives, including the Trustee, are entitled to be repaid with the proceeds of the Collateral sold in any enforcement sale and all amounts received by the Security Agent pursuant to the turnover provisions of the Intercreditor Agreement in priority to the Notes. As such, in the event of a foreclosure of the Collateral or any other distressed disposal, holders of the Notes may not be able to recover on the Collateral if the aggregate of the outstanding claims under super-priority indebtedness are greater than or equal to the proceeds realized. Any proceeds from an enforcement sale of the Collateral by any creditor and all amounts received by the Security Agent pursuant to the turnover provisions of the Intercreditor Agreement will, after all obligations under super-priority indebtedness have been discharged from such recoveries, be applied pro rata in repayment of the Notes, any other obligations secured by the Collateral which are permitted to rank pari passu with the Notes and certain non-priority hedging obligations.

The Intercreditor Agreement regulates the ability of the Trustee or the holders of the Notes to instruct the Security Agent to take enforcement action. The Security Agent will act in accordance with enforcement instructions received from the creditors holding more than 50% of the indebtedness under the Notes and indebtedness ranking pari passu with the Notes (the "Majority Senior Non-Priority Creditors"). However, the Security Agent will act in accordance with enforcement instructions received from the creditors holding more than 66 2/3% of the indebtedness and commitments under the Revolving Credit Facility, and any other credit facility permitted under the Intercreditor Agreement and certain super-priority hedging, cash management obligations and certain other indebtedness (the "Majority Super Senior Creditors") until the super-priority indebtedness is discharged if (1) the Majority Senior Non-Priority Creditors have not determined the method of enforcement they wish to pursue or appointed a financial adviser to assist them in making such a determination within three months or the super-priority indebtedness has not been discharged within six months; (2) an insolvency event occurs with respect to a debtor party to the Intercreditor Agreement; or (3) the Majority Senior Non-Priority Creditors have not determined the method of enforcement they wish to pursue or appointed a financial adviser to assist them in making such a determination and the Majority Super Senior Creditors determine in good faith that a delay in issuing enforcement instructions could reasonably be expected to have a material adverse effect on the ability to effect a distressed disposal or on the expected realization proceeds of any enforcement and deliver enforcement instructions which they reasonably believe to be consistent with the enforcement principles

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set out in the Intercreditor Agreement before the Security Agent has received any enforcement instructions from the Majority Senior Non-Priority Creditors.

To the extent that we incur indebtedness that is secured by the Collateral on a pari passu basis with the Notes, the voting interest of holders of the Notes in the Majority Senior Non-Priority Creditors will be diluted commensurate with the amount of indebtedness we incur.

As these other creditors and counterparties may have interests that are different from the interests of holders of the Notes and may elect to pursue their remedies in respect of the Collateral at a time when it would be disadvantageous for the holders of the Notes to do so, these arrangements could result in the enforcement of the Collateral in a manner that results in lower recoveries by holders of the Notes. Furthermore, other creditors not subject to the Intercreditor Agreement could commence enforcement action against us or our subsidiaries during such period, we or one or more of our subsidiaries could seek protection under applicable bankruptcy laws, or the value of certain Collateral could otherwise be impaired or reduced in value.

In addition, if the Security Agent sells Collateral comprising the shares of any of our subsidiaries as a result of an enforcement action in accordance with the Intercreditor Agreement, claims under the Notes and the Guarantees and the liens over any other assets securing the Notes and the Guarantees may be released.

The security interests in the Collateral will generally be granted to the Security Agent rather than directly to the holders of the Notes. The ability of the Security Agent to enforce the security interests in certain of the Collateral may be restricted by local law.

The security interests in the Collateral that will secure our obligations under the Notes and the obligations of the Guarantors under the Guarantees have not been granted directly to the holders of the Notes but are instead granted only in favor of the Security Agent (subject to exceptions pursuant to certain local law requirements). The Indenture provides (along with the Intercreditor Agreement) that only the Security Agent has the right to enforce the security interests. As a consequence, holders of the Notes will not have direct security interests, and in any case, will not be entitled to take enforcement action in respect of the Collateral securing the Notes, except through the Trustee, which will (subject to the applicable provisions of the Indenture) provide instructions to the Security Agent in respect of the Collateral.

There is some uncertainty under the laws of certain jurisdictions as to whether obligations to beneficial owners of the Notes who are not identified as registered holders in a security document will be validly secured. See "*In certain jurisdictions, security over the Collateral will be granted to the Security Agent rather than directly to the holders of the Notes. The ability of the Security Agent to enforce the Collateral may be restricted by local law.*"

In certain jurisdictions, security over the Collateral has been granted to the Security Agent rather than directly to the holders of the Notes. The ability of the Security Agent to enforce the Collateral may be restricted by local law.

In the Netherlands, Switzerland, South Korea, and other jurisdictions where parallel debt obligations ("Parallel Debt") are, or a separate appointment of the security trustee for local law purposes is customary or required, the security interests in the Collateral that will secure the obligations of the Issuers under the Notes and the obligations of the Guarantors under the guarantees will (subject to exceptions pursuant to certain local law requirements) not be granted directly to the holders of the Notes but have been granted only in favor of the Security Agent. The Indenture and the Intercreditor Agreement provide that only the Security Agent has the right to enforce such security documents. As a consequence, holders of the Notes will not have direct security interests and will not be entitled to take enforcement action in respect of the

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Collateral securing the Notes, except through the Trustee, who will provide instructions (subject to the provisions of the Indenture and the Intercreditor Agreement) to the Security Agent.

The security over the Collateral in the Netherlands, Switzerland, South Korea, and other jurisdictions where parallel debt obligations are, or a separate appointment of the security trustee for local law purposes is customary or required, will also be granted in favor of the Security Agent as beneficiary of Parallel Debt created to satisfy a requirement that the Security Agent, as grantee of certain types of collateral, be a creditor of the relevant Guarantor. The Parallel Debt is in the same amount and payable at the same time as the obligations of the Issuers under the Indenture and the Notes (the "Principal Obligations"). Any payment in respect of the Principal Obligations shall discharge the corresponding Parallel Debt and any payment in respect of the Parallel Debt shall discharge the corresponding Principal Obligations. The Security Agent will have, pursuant to the Parallel Debt, a claim against the Issuers for the full principal amount of the Notes. The holders of the Notes will not be entitled to enforce such security except through the Security Agent. Holders of the Notes bear some risks associated with a possible insolvency or bankruptcy of the Security Agent. The Parallel Debt obligations referred to above are contained in the Intercreditor Agreement or in a debtor accession deed applicable to a given debtor, which is governed by English law. We can provide no assurance that such a structure will be effective before courts in the Netherlands, Switzerland, and South Korea since there is no judicial or other guidance as to its efficacy, and therefore the ability of the Security Agent to enforce the Collateral may be restricted as the Collateral may be invalid or unenforceable with respect to the claims of any person who is not a party to the relevant security document, including all holders of the Notes.

In order to permit the beneficial holders of the Notes to benefit from a secured claim, the Intercreditor Agreement provides for the creation of Parallel Debt obligations in favor of the Security Agent. Pursuant to the Parallel Debt, the Security Agent becomes the holder of a claim equal to each amount payable by an obligor under the Indenture and the Intercreditor Agreement. To the extent that the security interests in the Collateral created under the Parallel Debt structure are successfully challenged by other parties, holders of the Notes will not receive any proceeds from an enforcement of the security interest in the Collateral.

Further, under a parallel debt structure, the holders of the Notes will bear the risks associated with the possible insolvency or bankruptcy of the Security Agent as the beneficiary of the parallel debt.

The Trustee has certain assigned duties and rights under the Indenture that become particularly important following defaults or events of default, and acts on behalf of holders as a prudent person would act in the conduct of its own affairs.

There are circumstances other than repayment or discharge of the Notes under which the Collateral securing the Notes and the Guarantees will be released automatically, without consent of holders of the Notes or the consent of the Trustee.

Under various circumstances, the Guarantees and the Collateral securing the Notes will be released automatically. In addition, if the Security Agent sells Collateral comprising the shares of the Issuers or certain of our subsidiaries as a result of an enforcement action in accordance with the Intercreditor Agreement, then claims under the Notes and the Guarantees may be released or transferred. The ability of holders of the Notes to recover on the Notes could be materially impaired in such circumstances.

Additionally, even though the holders of Notes will share in the Collateral with the creditors under the Revolving Credit Facility Agreement, the creditors under the Revolving Credit Facility Agreement will receive the proceeds of the enforcement of the Collateral in priority to the holders of the Notes and, under certain circumstances, the creditors under the Revolving Credit Facility Agreement and certain of our hedging arrangements will control enforcement actions with respect to the Collateral through the Security Agent,

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whether or not the holders of the Notes agree with those actions. See "*—Holders of the Notes may not control certain decisions regarding the Collateral.*"

Investors may face foreign exchange risks by investing in the Euro Notes.

The Euro Notes are denominated and payable in euros. If investors measure their investment returns by reference to a currency other than the euro, an investment in the Euro Notes will entail foreign exchange-related risks due to, among other factors, possible significant changes in the values of the euro relative to the currency by reference to which investors measure the return on their investments because of economic, political, and other factors over which we have no control. Depreciation of the euro against the currency by reference to which investors measure the return on their investments could cause a decrease in the effective yield of the Euro Notes below their stated coupon rates and could result in a loss to investors when the return on the Euro Notes is translated into the currency by reference to which the investors measure the return on their investments. Investments in the Euro Notes denominated in a currency other than U.S. dollars by U.S. investors may also have important tax consequences as a result of foreign exchange gains or losses, if any.

Bankruptcy or insolvency laws of jurisdictions outside the United States may not be as favorable to holders of the Notes as the U.S. bankruptcy laws and may preclude holders of the Notes from recovering payments due under the Notes.

The Dutch Co-Issuer is incorporated under the laws of the Netherlands, the Guarantors under the Notes are organized in the United States, Brazil, Hong Kong, Mexico, the Netherlands, Singapore, South Korea, Switzerland, and the U.K., and the Dutch Co-Issuer and the Guarantors are parties to certain key agreements affecting rights as of holders of the Notes and their ability to recover under the Notes, including the Indenture. The Notes may also be guaranteed in the future by other of our subsidiaries organized outside of the United States.

In the event that any one or more of the Issuers, the Guarantors, any future guarantors, if any, or any of our subsidiaries experience financial difficulty, it is not possible to predict with certainty in which jurisdiction or jurisdictions insolvency or similar proceedings would be commenced, or the outcome of such proceedings. Any enforcement of the guarantees or security interest after a bankruptcy or insolvency event in such other jurisdictions will be subject to the insolvency laws of the relevant entity's jurisdiction of organization or other jurisdictions. The bankruptcy, insolvency, administrative and other laws of each of these jurisdictions may be materially different from, or in conflict with, each other, including, among others, in the areas of rights of creditors, the ability to void preferential transfers, priority of governmental and other creditors, ability to obtain post-petition interest, and duration of the proceedings. The application of these laws, or any conflict among them, could call into question whether any particular jurisdiction's laws should apply, adversely affect a holder of the Notes' ability to enforce its rights in these jurisdictions, or limit any amounts that such holder of the Notes may receive.

Bankruptcy or insolvency laws and other limitations on the Guarantees and any security interests may adversely affect their validity and enforceability.

Our obligations under the Notes are guaranteed by, and secured by certain assets of, certain of the Guarantors or their shares. The Guarantors under the Notes are organized or incorporated under the laws of the United States, Brazil, Hong Kong, Mexico, the Netherlands, Singapore, South Korea, Switzerland, and the U.K. The bankruptcy, insolvency, administrative and other laws of the relevant Guarantors' jurisdictions of organization may be materially different from, or in conflict with, those of the United States, including, among others, in the areas of the rights of creditors, priority of governmental and other creditors, ability to obtain post-petition interest, and duration of the proceedings. The application of these laws, or any conflict among them, could call into question whether any particular jurisdiction's law should apply,

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adversely affect the ability of holders of the Notes to enforce their rights under the Guarantees and the relevant Collateral in those jurisdictions or limit any amounts that they may receive.

Although laws differ among these jurisdictions, in general, applicable fraudulent transfer and conveyance laws, equitable principles and insolvency laws, and limitations on the enforceability of judgments obtained in New York courts in such jurisdictions could limit the enforceability of the Guarantees and any security granted by a Guarantor or collateral provider. Courts may also, in certain circumstances, avoid the security or the Guarantees where the collateral provider is close to or in the vicinity of insolvency. The following discussion of fraudulent transfer, conveyance, and insolvency law, although an overview, describes generally applicable terms and principles, which are defined under the relevant jurisdiction's fraudulent transfer and insolvency statutes.

In insolvency proceedings, it is possible that creditors of the Guarantors, the collateral providers, or any appointed insolvency administrator may challenge the Guarantees and security, and intercompany obligations generally, as fraudulent transfers or conveyances, or on other grounds. If so, such laws may permit a court, if it makes certain findings, to:

- avoid or invalidate all or a portion of a Guarantor's obligations under its Guarantee or the security provided by us or such Guarantor;
- direct that the Issuers and/or the holders of the Notes return any amounts paid under a Guarantee or any security document to the relevant Guarantor or to the respective collateral provider or to a fund for the benefit of the Guarantor's creditors or the collateral provider; and
- take other action that is detrimental to holders of the Notes.

If we cannot satisfy our obligations under the Notes and any Guarantee or security is found to be a fraudulent transfer or conveyance or is otherwise set aside, we can provide no assurance that we can ever repay any amounts outstanding under the Notes. In addition, the liability of each Guarantor under its Guarantees of the Notes and the liability of each collateral provider is limited to the amount in respect of the Guarantee or security that does not constitute a fraudulent conveyance or improper corporate distribution or otherwise result in such Guarantee or security being set aside. The amount recoverable from a Guarantor or a collateral provider under the security documents will also be limited. However, we can provide no assurance as to what methodology a court would apply in making a determination of the maximum liability of each Guarantor or each collateral provider and whether a court would give effect to such attempted limitation. Also, there is a possibility that the entire Guarantee or security may be set aside, in which case, the Guarantor's or collateral provider's entire liability may be extinguished.

Different jurisdictions evaluate insolvency on various criteria, but a Guarantor or collateral provider generally may in different jurisdictions be considered insolvent at the time it issued a guarantee or created any security if:

- its liabilities, including contingent and prospective liabilities, exceed the fair market value of its assets;
- it cannot pay its debts as and when they become due (and it is unable to get further credit); or
- the present saleable value of its assets is less than the amount required to pay its total existing debts and liabilities, including contingent and prospective liabilities, as they mature or become absolute.

We can provide no assurance which standard a court would apply in determining whether a Guarantor or a collateral provider was "insolvent" as of the date the Guarantees were issued or security was created or

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(Amounts in millions of U.S. dollars)

that, regardless of the method of valuation, a court would not determine that we or a Guarantor were insolvent on that date, or that a court would not determine, regardless of whether or not a Guarantor or a collateral provider was insolvent on the date the respective Guarantee was issued or security was created, that payments to holders of the Notes constituted fraudulent transfers on other grounds. See "*—Limitations on validity and enforceability of the security interests and any guarantees*" for a general description of certain limitations of specific bankruptcy and insolvency laws in the jurisdictions of the Issuers and the Guarantors, which could limit holders of the Notes from recovering payments due under the Notes and the enforceability of any guarantees or security interests.

It may be difficult for noteholders to enforce their rights across multiple jurisdictions or against several individuals or entities.

The U.S. Co-Issuer and the Dutch Co-Issuer are organized or incorporated under the laws of the State of Delaware and the Netherlands, respectively. The Guarantors and the collateral providers are organized or incorporated under the laws of the United States, Brazil, Hong Kong, Mexico, the Netherlands, Singapore, South Korea, Switzerland, and the U.K., subject in all respects to the Agreed Security Principles. Although laws differ among various jurisdictions, in general, under fraudulent conveyance and other laws, a court could subordinate or void any Guarantee or security interest provided by such Guarantor or collateral provider and, if payment has already been made under the relevant Guarantee or security interest, require that the recipient return the payment to the relevant Guarantor, if the court found that:

- the Guarantee was granted, or the security interest created with actual intent to hinder, delay, or defraud creditors or shareholders of the Guarantor or other person or, in certain jurisdictions, even when the recipient was simply aware that the Guarantor or the collateral provider was insolvent when it granted the Guarantee or security interest;
- the Guarantee was entered into or, as the case may be, the security interest was created without a legal obligation to do so, is prejudicial to the interests of the other creditors and both the Guarantor or collateral provider and the beneficiary of the Guarantee were aware of or should have been aware of the fact that it was prejudicial to the other creditors;
- the Guarantor or, as the case may be, the collateral provider did not receive fair consideration or reasonably equivalent value for the Guarantee or the granting of the security and/or the Guarantor or collateral provider: (1) became insolvent before the granting of the security or was insolvent or rendered insolvent because of the issuance of the Guarantee or the creation of the security interest; (2) was undercapitalized or became undercapitalized because of the issuance of the Guarantee or the creation of the security interest; or (3) intended to incur, or believed that it would incur, indebtedness beyond its ability to pay at maturity;
- the Guarantee or security interest was held to exceed the objects of the Guarantor or not to be in the best interests or for the corporate benefit of the Guarantor;
- the Guarantee or security interest was entered into within a certain time period prior to the opening date of insolvency proceedings of the Guarantor; or
- the amount paid or payable was in excess of the maximum amount permitted under applicable law.

If a court or a creditor were to find that the granting of a Guarantee and/or the security interest was a fraudulent conveyance or can otherwise be challenged, the court, a creditor, or an insolvency administrator appointed over the assets of the Guarantor or the collateral provider could void or declare unenforceable the payment obligations under such Guarantee or security interest, or subordinate such Guarantee to any

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(Amounts in millions of U.S. dollars)

presently existing and future indebtedness of such Guarantor or require the holders of the Notes to repay any amounts received with respect to such Guarantee or security interest. In some of these events, holders of the Notes may cease to have any claim in respect of the Guarantor and would be a creditor solely of the Issuers and any remaining Guarantors.

In addition, the granting or enforcement of Guarantees and security is subject to restrictions in several jurisdictions in which Guarantors are organized or incorporated. In the event of bankruptcy, insolvency, or a similar event, proceedings could be initiated in any of these jurisdictions. The rights under the Collateral will thus be subject to the laws of the applicable jurisdiction, and it may be difficult to effectively enforce such rights in multiple bankruptcies, insolvency, and other similar proceedings. Moreover, such multi-jurisdictional proceedings are typically complex and costly for creditors and often result in substantial uncertainty and delay in the enforcement of creditors' rights. The application of these various laws in multiple jurisdictions could trigger disputes over which jurisdictions' law should apply and could adversely affect the ability to enforce the security and to realize any recovery under the Notes and the Guarantees.

The issuance of the Notes could be wholly or partially voided in an insolvency proceeding.

If we become the subject of bankruptcy proceedings within a certain period following the completion of the Offering and the court determines that we were insolvent at the time of the Offering, a court could find that the issue of the Notes involved a preferential transfer by altering the status of participants from unsecured to secured creditors. As secured creditors, holders of the Notes could be entitled to receive a greater recovery in liquidation than the same holders would have been entitled to if those holders had not participated in the Offering. If the court determines that the granting of the security interest was therefore a preferential transfer that did not qualify for any defense under bankruptcy laws, then holders of the Notes would be unsecured creditors. In addition, under such circumstances, the value of any consideration holders received with respect to the Notes, including upon foreclosure of the security, could be subject to recovery from such holders and possibly from subsequent transferees.

The value of the Collateral securing the Notes may not be sufficient to secure post-petition interest in the United States.

In the event of a bankruptcy, liquidation, dissolution, reorganization, or similar proceeding against us in the United States, holders of the Notes will only be entitled to post-petition interest under the U.S. bankruptcy laws to the extent that the value of their security interest in the Collateral is greater than their pre-bankruptcy claim. Holders of the Notes that have a security interest in Collateral with a value equal or less than their pre-bankruptcy claim will not be entitled to post-petition interest under the United States bankruptcy laws. No appraisal of the fair market value of the Collateral has been prepared in connection with the Offering and therefore the value of the noteholders' interest in the Collateral may not equal or exceed the principal amount of the Notes.

Holders of the Notes may not be able to recover in civil proceedings for U.S. securities law violations.

The Dutch Co-Issuer and certain of the Guarantors are organized outside the United States and most of the assets of these non-U.S. companies are located outside of the United States. Although we and the Guarantors have submitted to the jurisdiction of certain New York courts in connection with any action under U.S. securities laws, holders of the Notes may be unable to effect service of process within the United States on our directors and executive officers or the directors and executive officers of the Guarantors. In addition, as most of the assets of these non-U.S. companies are located outside of the United States, holders of the Notes may be unable to enforce against them judgments obtained in the U.S. courts predicated upon civil liability provisions of the federal securities laws of the United States. There is also

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(Amounts in millions of U.S. dollars)

uncertainty about the enforceability of civil judgments in the courts of certain jurisdictions, whether or not predicated upon the federal securities laws of the United States.

If the Notes become subject to a withholding tax on interest in the Netherlands, the Notes may be redeemed prior to their stated maturity.

As of January 1, 2021, a new Dutch conditional withholding tax on (deemed) intercompany interest and royalty payments entered into force. This conditional withholding tax will apply on (deemed) interest and royalty payments directly or indirectly made by a Dutch entity to affiliated entities in low-tax jurisdictions designated as such and included in the list as published by the Dutch Ministry for Finance under the ministerial regulation of December 31, 2018, on the designation of low-tax jurisdictions and jurisdictions that are included in the EU list of non-cooperative jurisdictions (*Regeling laagbelastende staten en niet-coöperatieve rechtsgebieden voor belastingdoeleinden*) (the "Dutch Black List").

Currently, the Netherlands considers a jurisdiction as a low-tax jurisdiction if such jurisdiction either has no corporation tax or has a corporation tax with a general statutory rate on business profits that is lower than 9%. As of December 31, 2020, the following 14 jurisdictions have been designated as low-tax jurisdictions by the Netherlands and are included in the Dutch Black List: Anguilla, Bahamas, Bahrain, Barbados, Bermuda, British Virgin Islands, Guernsey, Isle of Man, Jersey, Cayman Islands, Turkmenistan, Turks and Caicos Islands, Vanuatu, and the United Arab Emirates. Additionally, the jurisdictions that are (also) included in the EU list of non-cooperative jurisdictions, American Samoa, the American Virgin Islands, Anguilla, Barbados, Fiji, Guam, Palau, Panama, Samoa, Seychelles, Trinidad and Tobago, and Vanuatu are in scope for this conditional withholding tax. The Dutch Black List will be updated each year. The applicable withholding tax rate is the headline Dutch corporate income tax rate (i.e. 25% in 2021). With respect to low-tax jurisdictions or jurisdictions that are included on the EU List of non-cooperative jurisdictions with which the Netherlands has concluded a tax treaty, a three-year grandfathering period applies during which the conditional withholding tax on (deemed) interest and royalty payments will not apply. The Dutch Government will approach the relevant treaty partner to renegotiate and amend the respective treaty. This means that the treaty countries that are designated as of January 1, 2021 as low-tax jurisdictions for tax purposes, being Bahrain, Barbados, the United Arab Emirates, and Panama, will not be in scope of the conditional withholding tax act 2021 (*Wet bronbelasting 2021*) until January 1, 2024.

This measure should not apply to (deemed) interest payments on debt instruments that are issued to holders unrelated to the Dutch Co-Issuer.

We may not be able to fulfill our repurchase obligations in the event of a change of control, and certain events will not constitute a change of control.

The Indenture contains provisions relating to certain events constituting a "change of control." Upon the occurrence of a change of control, we are required to offer to repurchase all outstanding Notes at a price equal to 101% of their principal amount, plus accrued and unpaid interest and additional amounts, if any, up to (but excluding) the date of repurchase. If a change of control were to occur, we can provide no assurance that we would have sufficient funds available at such time, or that we would have sufficient funds to pay the purchase price of the outstanding Notes or that the restrictions in our other existing contractual obligations would allow us to make such required repurchases. A change of control would, if so requested by a lender under the Revolving Credit Facility Agreement, result in the cancellation of such lender's commitments and require the repayment of amounts outstanding under such lender's commitments under the Revolving Credit Facility Agreement, and a change of control may result in an event of default under, or acceleration of, other indebtedness. The repurchase of the Notes pursuant to such an offer could cause a default under such indebtedness, even if the change of control itself does not. We may be required to repay a proportionate amount of debt under our Revolving Credit Facility Agreement if we repay all or a portion of the principal under the Notes.

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The ability of the Issuers to receive cash from their subsidiaries to allow them to pay cash to the holders of the Notes following the occurrence of a change of control may be limited by our then existing financial resources. See "*The Issuers are holding companies with no material assets or sources of revenue of their own and will depend on cash from their operating subsidiaries to make payments on the Notes.*" If an event constituting a change of control occurs at a time when our subsidiaries are prohibited from providing funds to the Issuers for the purpose of repurchasing the Notes, we may seek the consent of the lenders under such indebtedness to the purchase of the Notes or may attempt to refinance the borrowings that contain such prohibition. If such a consent to repay such borrowings is not obtained, the Issuers will remain prohibited from repurchasing any Notes. In addition, we expect that we would require third-party financing to make an offer to repurchase the Notes upon a change of control, but we can provide no assurance that we would be able to obtain such financing. Any failure by the Issuers to offer to purchase its Notes would constitute a default under the Indenture, and by extension the Revolving Credit Facility Agreement, as an event of default under the Indenture would constitute an event of default under the Revolving Credit Facility Agreement.

The change of control provision contained in the Indenture may not necessarily afford protection in the event of certain important corporate events, including a reorganization, restructuring, merger, or other similar transaction involving us that may adversely affect you, because such corporate events may not involve a shift in voting power or beneficial ownership or, even if they do, may not constitute a "Change of Control" as defined in the Indenture.

Except as described in the Indenture, we are not required to offer to repurchase or redeem the Notes in the event of a reorganization, restructuring, merger, recapitalization, or similar transaction.

The definition of "Change of Control" in the Indenture includes a disposition of all or substantially all of the assets of the Issuers and their restricted subsidiaries, taken as a whole, to any person. Although there is a limited body of case law interpreting the phrase "all or substantially all," there is no precise established definition of the phrase under applicable law. Accordingly, in certain circumstances, there may be a degree of uncertainty as to whether a particular transaction would involve a disposition of "all or substantially all" of the assets of the Issuers and their restricted subsidiaries, taken as a whole. As a result, it may be unclear as to whether a change of control has occurred and whether we are required to make an offer to repurchase the Notes.

The ability of holders of the Notes to transfer or resell the Notes without registration under applicable securities laws is limited.

The Notes are being offered and sold pursuant to an exemption from registration under the Securities Act and applicable state securities laws of the United States and have not, will not be, and are not required to be, registered under the Securities Act or the securities laws of any other jurisdiction. Therefore, holders of the Notes may transfer or sell the Notes in the United States only in a transaction registered under or exempted from the registration requirements of the Securities Act and applicable state securities laws. These restrictions may limit the ability of holders of the Notes to resell the Notes and holders of the Notes may be required to bear the risk of their investment for an indefinite period of time. It is the obligation of investors in the Notes to ensure that all offers and sales of the Notes, within the United States and other countries, comply with applicable securities laws. We have not agreed to grant registration rights to the Notes under the Securities Act or conduct an exchange offer for registered notes. In addition, we will not be subject to the reporting requirements of the Exchange Act.

An active trading market may not develop for the Notes or may have particularly limited liquidity.

We can provide no assurance as to:

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- the liquidity of any market in the Notes;
- the ability of holders of the Notes to sell their Notes; or
- the prices at which holders of the Notes would be able to sell their Notes.

Future trading prices for the Notes will depend on many factors, including, among other things, prevailing interest rates, the number of holders of Notes, our operating results, the interest of securities dealers in making a market for them, and the market for similar securities. Historically, the market for non-investment grade securities has been subject to disruptions that have caused substantial volatility in the prices of securities similar to the Notes. The liquidity of a trading market for the Notes may be adversely affected by a general decline in the market for similar securities and is subject to disruptions that may cause volatility in prices. The trading market for the Notes may attract different investors and this may affect the extent to which the Notes may trade. It is possible that the market for the Notes will be subject to disruptions. Any such disruption may have a negative effect on holders of the Notes, regardless of our prospects and financial performance. As a result, we can provide no assurance that there is or will be an active trading market for the Notes. If no active trading market develops, holders of the Notes may not be able to resell the Notes at a fair value, if at all.

Even if an active trading market for the Notes does develop, there is no guarantee that it will continue. The market, if any, for the Notes may experience similar disruptions, and any such disruptions may adversely affect the liquidity in that market or the prices at which holders of the Notes may sell their Notes. In addition, the Notes may trade at a discount from their initial offering price, depending upon prevailing interest rates, the market for similar notes, our performance, and other factors.

In addition, the Indenture allows us to issue additional series of notes in the future, which could adversely impact the liquidity of the Notes.

We are not subject to the Sarbanes-Oxley Act of 2002 and, therefore, are not required to provide a management report of our internal controls.

We are not subject to the Sarbanes-Oxley Act of 2002, which requires public companies to have and maintain effective disclosure controls and procedures to ensure timely disclosure of material information, and have management review the effectiveness of those controls on a quarterly basis. The Securities Act also requires public companies to have and maintain effective internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and preparation of financial statements, and have management review the effectiveness of those controls on an annual basis (and have an independent auditor attest to the effectiveness of such internal controls). We are not required to comply with these requirements and therefore we might not have procedures comparable to public companies.

We are in the process of implementing an internal audit function. Although we have devoted management and will implement financial resources to develop and monitor our internal control over financial reporting, all internal controls systems, no matter how well-designed, have inherent limitations. In the course of our internal controls evaluation, we seek to identify data errors or control problems and to confirm that appropriate corrective action, including process improvements, are being undertaken. The overall goals of these various evaluation activities are to monitor our internal controls over financial reporting and to make modifications as necessary. Our intent in this regard is that our internal controls over financial reporting will be maintained as dynamic systems that change (including with improvements and correction) as conditions warrant. Even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

Because of changes in conditions, the effectiveness of internal controls may vary over time. We cannot be certain that our internal control systems will be adequate or effective in preventing fraud or human error

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(Amounts in millions of U.S. dollars)

in the future or that new deficiencies of a material nature will not evolve and which we may be unable to correct. Any failure in the effectiveness of our internal controls over financial reporting could have a material effect on our financial reporting or cause us to fail to meet reporting obligations, which could negatively impair our ability to execute our business strategy and have an adverse impact on the price of the Notes offered hereby.

A lowering or withdrawal of the ratings assigned to our debt securities by rating agencies may increase our future borrowing costs and reduce our access to capital.

Our debt currently has a non-investment grade rating, and is currently rated by Moody's. Moody's lowered its rating of the Notes in April 2020 and the rating could be lowered again in the future or withdrawn entirely if, in that rating agency's judgment, future circumstances relating to the basis of the rating, such as adverse changes in our business, warrant. Consequently, real or anticipated changes in our credit ratings will generally affect the market value of the Notes. Credit ratings are not recommendations to purchase, hold, or sell the Notes. Additionally, credit ratings may not reflect the potential effect of risks relating to the structure or marketing of the Notes. Any future additional lowering of our ratings likely would make it more difficult or more expensive for us to obtain additional debt financing.

Many of the covenants contained in the Indenture will not be applicable during any period when the Notes are rated investment grade by each of Moody's and S&P and no default or event of default has occurred and is continuing.

Many of the covenants contained in the Indenture will not apply during any period when the Notes are rated investment grade by each of Moody's and S&P and no default or event of default has occurred and is continuing under the Indenture. These covenants restrict, among other things, our ability to pay dividends, incur debt, and to enter into certain other transactions. We can provide no assurance that the Notes will ever be rated investment grade, or that if they are rated investment grade, the Notes will maintain such ratings. However, suspension of these covenants would allow us to engage in certain actions that would not have been permitted while these covenants were in force, which actions may conflict with the interests of the holders of the Notes. Furthermore, the effects of any such actions that we take while these covenants are not in force will be permitted to remain in place even if the Notes are subsequently downgraded below investment grade and the covenants are reinstated. Any subsequent lowering, suspension or withdrawal of such ratings may have an adverse effect on the market price or marketability of the Notes.

To the extent Parent or Jining Ruyi do not pay or otherwise satisfy certain fees and expenses incurred by Issuers in connection with the Transactions, such fees and expenses may ultimately be borne by Issuers.

Parent, as primary obligor, and Jining Ruyi as guarantor, have entered into a commitment letter with Issuers dated April 26, 2019 related to certain fees and expenses incurred by Issuers in connection with the Transactions. Pursuant to the commitment letter, Parent has committed to Issuers to pay or otherwise satisfy such fees and expenses, and Jining Ruyi has guaranteed to the Issuers the due and punctual payment or satisfaction of Parent's obligations. In addition, on August 30, 2019, Parent and Jining Ruyi entered into an additional commitment letter related to certain fees and expenses incurred in connection with the Taiwan Acquisition. Pursuant to this commitment letter, Parent has committed to the Issuers to pay or otherwise satisfy such fees and expenses, and Jining Ruyi has guaranteed to the Issuers the due and punctual payment or satisfaction of Parent's obligations. We can provide no assurance that Parent or Jining Ruyi will honor their commitments under the commitment letter. To the extent either Parent or Jining Ruyi fails to honor its commitment under the commitment letter, the Issuers may be liable for such fees and expenses and as a result our business, financial condition, or results of operations may be materially adversely affected.

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If we are unable to resolve our disagreement with our lenders, we may be in default under our Revolving Credit Facility.

Pursuant to the terms of our Revolving Credit Facility, we are required to undertake certain actions to perfect the security interests granted in respect of the collateral securing our obligations under the Revolving Credit Facility. We have completed such actions with respect to substantially all of the collateral required to be pledged to secure our obligations under the Revolving Credit Facility. However, due to certain regulatory requirements and delays, we have not finalized the security pledges covering collateral held by certain of our subsidiaries. During fiscal 2019 and continuing into 2020, the Facility Agent under the Revolving Credit Facility notified the Company that it considers these open security issues to be defaults under the Revolving Credit Facility. We disagree with the Facility Agent and have continuously maintained that we have progressed all required security obligations in accordance with the standards of performance set forth in the Agreed Security Principles. Nonetheless, should this disagreement remain unresolved and should the Facility Agent succeed in establishing a default under the Revolving Credit Facility, such a default may entitle the lenders to terminate our access to the facility and declare our obligations thereunder immediately due and payable. Should this occur, it may also result in a default under the Indenture.

The interests of our principal shareholders may conflict with interests of holders of the Notes.

Our equity investors indirectly own the entire share capital of the Company. As a result, our shareholders have and will continue to have, directly (including via the appointment of directors and managers) or indirectly, the power to affect our legal and capital structure as well as the ability to elect and change our management and to approve other changes to our operations and to influence the outcome of matters requiring action by our shareholders. Our shareholders' interests in certain circumstances may conflict with the interests of holders of the Notes, particularly if we encounter financial difficulties or are unable to pay our debts when due. For example, the shareholders could refuse to contribute additional capital or could vote to cause us to incur additional indebtedness. In addition, our principal direct or indirect shareholders have incurred indebtedness at entities that hold, directly or indirectly, all of our outstanding equity interests, including indebtedness incurred by Ruyi Textile and Fashion International Group Limited ("Ruyi Textile") pursuant to that certain Facility Agreement dated September 21, 2018 (as amended on January 30, 2019, and August 23, 2019), by and among Ruyi Textile, as borrower, Credit Suisse AG, Singapore Branch, as agent for the finance parties, and certain other parties thereto (the "Mezzanine Credit Facility"), which is secured by, among other things, a pledge of the equity interests of Eagle Ultimate Global Holding B.V. ("Ultimate Parent") and Parent, which directly or indirectly own the equity interests of the Company. By letter dated November 18, 2019, the holders of indebtedness under the Mezzanine Credit Facility notified Ultimate Parent that they have accelerated such indebtedness based on certain defaults, and have taken certain preliminary steps to enforce their rights under the equity pledge agreements. Any defaults under the Mezzanine Credit Facility or any other indebtedness of the Company, or the Company's direct or indirect shareholders and any enforcement taken in respect of any such defaults could adversely impact our business, financial condition, or results of operations, including by increasing the likelihood of a change of control under the Indenture or the Revolving Credit Facility Agreement or otherwise indirectly triggering a default under the Indenture or the Revolving Credit Facility Agreement.

Certain of our shareholders are in the business of making investments in companies and may acquire and hold interests in businesses that compete directly or indirectly with us. Our equity investors may also pursue acquisition opportunities that are complementary to our business and, as a result, those acquisition opportunities may not be available to us. In addition, our shareholders have held, hold, or may hold interests in suppliers or customers of the Company. Our equity investors and their affiliates could also have an interest in pursuing acquisitions, divestitures (including one or more divestitures of all or part of our business or sales of our shares which would result in changes to our shareholding structure), financings, dividend distributions or other transactions that, in their judgment, could enhance their equity investments, although such transactions might involve risks to you as a holder of Notes.

The LYCRA Company

Business Overview

(Amounts in millions of U.S. dollars)

Overview

The LYCRA Company innovates and produces fiber and technology solutions for the apparel and personal care industries. Headquartered in Wilmington, Delaware, The LYCRA Company is recognized worldwide for its innovative products, technical expertise, and unmatched marketing support. The LYCRA Company owns leading consumer and trade brands: LYCRA®, LYCRA HyFit®, LYCRA® T400®, COOLMAX®, THERMOLITE®, ELASPAN®, SUPPLEX® and TACTEL®. The LYCRA Company's legacy stretches back to 1958 with the invention of the original spandex yarn, LYCRA® fiber. Today, The LYCRA Company focuses on adding value to its customers' products by developing unique innovations designed to meet the consumer's need for comfort and lasting performance.

As of 2017, the LYCRA® brand has achieved 87% global awareness and is associated with comfort, fit, movement and resilience. COOLMAX® and THERMOLITE® brands each rank at the top of its competitive set in the cooling and warming space. We maintain and actively defend a portfolio of approximately 850 patents which make up 135 unique patent families, in addition to a portfolio of approximately 2,250 trademarks that protect 110 unique brands, marks, and logos. Our products provide unique performance attributes that allow our customers to produce differentiated fabrics or garments often representing less than 1% of the ultimate garment production cost.

We sustain and advance our market position through our industry-leading research and development program, which enables our direct customers to provide new features and higher value to downstream customers. Our innovations often result in higher net margins for our direct customers and downstream customers. As a result of incorporating our product innovations, garments are better-fitting and more durable, delivering fit, shape, and comfort that lasts. Successful product innovations include LYCRA® XTRA LIFE™, the fiber industry's leading chlorine-resistant fiber for swimwear, LYCRA® FUSION™ Technology, delivering elastic performance that prevents runs and tears in pantyhose, and LYCRA® dualFX® Technology, delivering superior stretch and recovery in denim. New products continue to replace our prior product offerings with LYCRA® and LYCRA HyFit® fiber products introduced between 2010 and 2020 accounting for approximately 75% of our LYCRA® and LYCRA HyFit® fiber sales during the year ended December 31, 2020.

On June 30, 2020, The LYCRA Company announced its decision to close its polyurethane intermediates facility in La Porte, Texas by the end of 2020 and exit the supply of PTMEG and BDO, sold within the TERATHANE® product line. The decision followed a strategic review of the business. It was based on market oversupply and related pricing pressures, especially on its key output material, PTMEG, and the desire to align resources and capabilities with future growth opportunities within its core LYCRA® fiber brands.

We are deeply connected to market trends through our long-standing relationships with fabric, garment, brand, and retail companies. This requires a high degree of customer engagement and service across the apparel supply chain, which we achieve through our push-pull demand model. We pull through demand by working closely with leading brand and retail companies to create differentiated consumer-oriented fibers and fabrics. We also work with textile mills to push through our product by delivering desired fiber and fabric attributes and connecting fabric mills to our network of downstream customers. We believe our partnerships are unique and highly valued by our customers. Historically, our customer base has had low turnover as our branded apparel partnership model drives high customer retention, and we continue to have long-standing relationships with our top customers.

Our customers value our products and services because of our brand recognition, superior product quality and performance, track record of product innovation, and differentiated approaches to providing value creation as an integrated solutions provider across the apparel value chain.

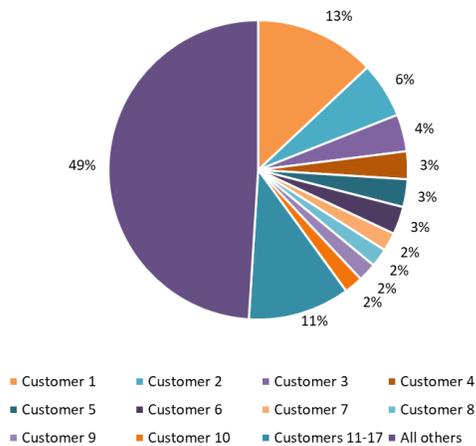
We sell our products to a well-diversified, global customer base operating in a large number of product categories, as demonstrated by the charts below:

The LYCRA Company

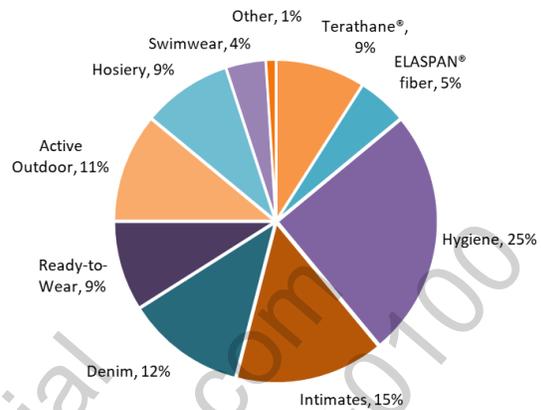
Business Overview

(Amounts in millions of U.S. dollars)

2020 Total Sales: Direct Customers⁽¹⁾



2020 End Uses Overview⁽²⁾



(1) LYCRA® and LYCRA® HyFit® fiber revenue breakdown for the year ended December 31, 2020.

(2) Revenue by end market breakdown for the year ended December 31, 2020 (including sales to JV-owned facilities). Other category includes socks, insulation, and medical textiles end markets.

For more than 60 years, we have developed proprietary production methods that provide us with a greater range and flexibility of polymer formulations than lower-tier producers. We are able to achieve high levels of fiber quality and tailor fiber properties to high-quality standards using our advanced level of instrumentation, monitoring and process control systems, and patented formulations. These unique production methods helped build our reputation for high-quality products and lead to product innovations that improve the value and performance of the end-products into which our technologies are incorporated. Our products allow our downstream customers to deliver innovative garments to end-customers and, in many cases, our customers co-brand their garments with our LYCRA® brand.

Environmental

We are subject to a broad range of federal, state, provincial, local, and foreign laws and regulations governing health and safety or the protection of the environment and natural resources, including, for example, the following U.S.- based laws:

- The Resource Conservation and Recovery Act ("RCRA") and comparable state laws that impose requirements for the generation, handling, transportation, treatment, storage, disposal, and clean-up of wastes from our manufacturing operations;
- The Comprehensive Environmental Response, Compensation, and Liability Act ("CERCLA") and comparable state laws that govern the clean-up of hazardous substances that may have been released at properties currently or previously owned or operated by us or locations to which we have sent waste for disposal;
- The Clean Water Act ("CWA") and analogous state laws and regulations that can impose detailed permit requirements and strict controls on discharges of waste water from our facilities; and
- The Clean Air Act ("CAA") and comparable state laws and regulations that impose obligations related to air emissions, including federal and state laws and regulations to address GHG emissions, and federal provisions requiring Risk Management Planning with respect to certain chemicals;

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Business Overview

(Amounts in millions of U.S. dollars)

- The Toxic Substances Control Act ("TSCA") that regulates manufacture, import, processing, and distribution of chemicals substances;
- The Emergency Planning and Community Right-to-Know Act ("EPCRA") that requires reporting on releases of certain chemicals produced or processed at manufacturing facilities and requires reporting to local emergency response agencies about hazardous substances at the facility;
- The Occupational Safety and Health Act ("OSHA") that imposes worker protection and communication requirements with respect to hazardous chemicals, and that imposes process safety management requirements on our operations; and
- The Hazardous Materials Transportation Act ("HMTA") that imposes strict requirements with respect to transportation of many of our raw materials, products, and wastes.

Environmental pre-construction and operating permits are, or may be, required for certain of our operations, and such permits are subject to modification, renewal, and revocation. It is likely that we will be subject to increasingly stringent environmental standards in the future, particularly under air quality and water quality laws. It is also likely that we will be required to make additional expenditures, which could be significant, relating to environmental matters such as pollution controls on an ongoing basis. As our operations involve the handling, transportation, and distribution of materials that are, or could be, classified as toxic or hazardous, or otherwise as pollutants, there is some risk of contamination and environmental damage inherent in our operations. Consequently, we are subject to environmental laws that impose liability for historical or new releases of hazardous substances. The costs of remedying such conditions may be significant, and remediation obligations could adversely affect our business, financial condition, or results of operations. We are also subject to a variety of health and safety laws and regulations governing occupational health and safety.

Violations of and liabilities with respect to these laws and regulations could result in significant administrative, civil, or criminal penalties, remedial and clean-up costs, natural resource damages, permit modifications or revocations, operational interruptions, shutdowns, or other liabilities. Additionally, federal, state, provincial, local, and foreign agencies frequently revise environmental laws and regulations, and any changes that result in more stringent or costly permitting, operational, waste handling, disposal, and clean-up requirements for the industry could have a significant impact on our operating costs.

Regulatory matters

Our businesses are subject to a variety of regulations generally applicable to global manufacturing businesses. These regulations include: health, safety and environmental; transportation; antitrust and competition; anticorruption; anti-boycott; customs, export controls, and trade sanctions; employment and labor; physical security; government contracts; and intellectual property, among others. In particular, our sale of fibers to our customers is subject to tariffs in key markets. Further, a number of our customers' products, including cotton blends, low-end intimate apparel, and socks, are subject to tariffs and quotas which can decrease our customers' production levels, aid certain of our competitors, and negatively impact purchases of our products. Our businesses that supply fiber to the apparel market are especially sensitive to changes in tariffs and quotas.

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Except where noted, statements in the following discussion and analysis of financial condition and results of operations related to periods prior to the consummation of the Acquisition reflect the operations of INVISTA Apparel and Advanced Textiles and statements in the following discussion and analysis of financial condition and results of operations related to periods following the consummation of the Acquisition reflect the operations of Parent. For the year ended December 31, 2019, unless otherwise indicated, we present, on a non-GAAP combined basis, consolidated financial information of Parent for the year ended December 31, 2019 and the estimated financial results (based on management estimates) of INVISTA Apparel and Advanced Textiles for the period from January 1, 2019 to January 31, 2019. The financial results of INVISTA Apparel and Advanced Textiles for the period from January 1, 2019 to January 31, 2019 reflect management estimates related to the one month of operations of INVISTA Apparel and Advanced Textiles not included in Parent's financial statements for the year ended December 31, 2019.

In addition, the statements in the following discussion and analysis of financial condition and results of operations regarding estimated results for periods presented prior to the Acquisition, industry outlook, our expectations regarding the performance of our business and other forward-looking statements are subject to numerous risks and uncertainties, including, but not limited to, the risks and uncertainties described in "Forward-Looking Statements," "Use of Non-GAAP Financial Measures", and the section entitled "Risk Factors" in this annual report. Our actual results may differ materially from those contained in or implied by any forward-looking statements. You should read the following discussion and analysis of our financial condition and results of operations together with the sections entitled "Certain References," "Presentation of Financial Information," and the historical audited consolidated financial statements included elsewhere in this annual report.

The Transactions

On October 27, 2017, the U.S. Buyer, an affiliate of the Issuers, entered into a sale and purchase agreement with, among others, INVISTA, pursuant to which the U.S. Buyer agreed to purchase, whether directly or through an affiliate of the U.S. Buyer, the entire issued share capital and limited liability interests of the Company. The Acquisition Agreement was subsequently amended and restated on March 28, 2018 in order to, among other things, address the arrangement with respect to the acquisition of INVISTA's interests in the Taiwan Entities and to mitigate the impact of any delayed transfer of the interests in the Taiwan Entities.

All conditions precedent under the Acquisition Agreement were satisfied on October 26, 2018. The Acquisition Agreement was further amended and restated on December 21, 2018 in order to, among other things, allow for closing of the Acquisition to occur on January 31, 2019 and take into account agreed commercial changes to the consideration mechanics. A side letter to the Acquisition Agreement was entered into on January 31, 2019 and subsequently amended on April 26, 2019 to, among other things, allow for \$78 to be paid under the Promissory Note for the purpose of satisfying the working capital closing adjustment. The Promissory Note was amended and restated on August 30, 2019, in connection with the Taiwan Acquisition. The principal amount and interest under the Promissory Note was payable in two tranches: \$25 of principal on July 31, 2019, which The LYCRA Company satisfied, and the remaining principal amount plus all accrued but unpaid interest on July 31, 2020. Interest accrued on the unpaid principal amount of the Promissory Note outstanding from and including July 31, 2019 until payment in full of all amounts due and would be compounded and capitalized as principal on a quarterly basis (calculated daily) at an initial rate of 10%, and a reduced rate of 7.5% per annum beginning August 30, 2019 per the amended agreement.

During 2020, the Promissory Note was amended and restated to extend the maturity date to November 30, 2020, and set the interest rate at 12% per annum, which interest accrued on the unpaid principal amount outstanding from and including July 31, 2020. The Promissory Note was ultimately repaid in full

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(along with accrued and unpaid interest) by January 8, 2021 (see Note 17, *Subsequent Events* within the Notes to the Consolidated Financial Statements).

On May 4, 2018, we completed the issuance of the Notes, with the proceeds therefrom deposited into escrow. The Acquisition closed on January 31, 2019 and the proceeds from the Offering were released from escrow.

The Taiwan Acquisition Agreement was amended and restated on December 21, 2018 in order to, among other things, take into account agreed commercial changes to the consideration mechanics. The Taiwan Acquisition Agreement was further amended on April 26, 2019, May 31, 2019, and August 19, 2019 in order to, among other things, allow for the closing of the Taiwan Acquisition to occur on August 30, 2019. All conditions precedent under the Taiwan Acquisition Agreement were satisfied on April 2, 2019. On August 30, 2019, The LYCRA Company completed the Taiwan Acquisition.

Purchase accounting

The LYCRA Company’s preliminary allocation of the purchase price was completed and is included within the financial statements for the year ended December 31, 2019. Acquired assets and liabilities were adjusted to their estimated fair value as of the Acquisition Closing Date. During 2020, The LYCRA Company identified some measurement period adjustments which were made to finalize the purchase price allocation associated with the Acquisition and the Taiwan Acquisition and have been included within the financial statements for the year ended December 31, 2020.

The material impact of Purchase Price Allocation to each line item within the Consolidated Statement of Operations, through (Loss) before income taxes, is as follows:

	Year ended December 31, 2019
Net sales ⁽¹⁾	(1)
Cost of goods sold and other operating expenses ⁽²⁾	41
Selling, general and administrative expenses ⁽³⁾	(2)
Research and development expenses ⁽⁴⁾	2
Other (income), net ⁽⁵⁾	(1)

- (1) Updated in-transit revenue adjustment for transactions recorded prior to January 31, 2019.
- (2) “Cost of goods sold and other operating expenses” includes \$34 higher costs associated with the sale of inventory that was valued at fair value as of January 31, 2019. \$5 depreciation and amortization catch up was posted to recognize the higher depreciation on the “Other intangible assets, net” and “Property, plant and equipment, net” that were adjusted to fair value as of January 31, 2019. In addition, there were work in process and in-transit sales adjustments of \$2.
- (3) “Selling, general and administrative expenses” is primarily made up of the reversal of bad debt expense that was booked due to a change in calculation methodology.
- (4) “Research and development expenses” includes a year-to-date adjustment to recognize the higher depreciation on the property, plant and equipment that were adjusted to fair value as of January 31, 2019.

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(5) "Other (income), net" consists primarily of the reversal of foreign exchange revaluation losses on opening balance sheet adjustments.

Stand-alone company impact and management estimates

The financial information of INVISTA Apparel and Advanced Textiles included in this annual report reflects management estimates of the financial performance of INVISTA Apparel and Advanced Textiles for the period from January 1, 2019 to January 31, 2019. The preparation of this information was based on certain assumptions and estimates believed reasonable by management including assumptions pertaining to the allocation of costs related to our operation as a stand-alone entity. This financial information may not, however, necessarily reflect the results of operations, financial positions and cash flows that would have occurred if we had been a separate, stand-alone entity during the periods presented. The financial information of Parent reflects, for the period following the consummation of the Acquisition, the performance of The LYCRA Company as a stand-alone company. While we have replicated many of the systems and services previously provided by the previous owner, there may be additional services or unidentified services that will need to be replicated in the future. We may be required to create new systems or engage third parties to provide any such services.

In addition, the financial information of INVISTA Apparel and Advanced Textiles included in this discussion and analysis of financial condition and results of operations has not been subject to any audit procedures and reflects only the estimates of management. No carve-out financial statements for INVISTA Apparel and Advanced Textiles are available for the periods preceding the Acquisition Closing Date. Details are provided in the following table:

	INVISTA Apparel and Advanced Textiles		INVISTA Apparel and Advanced Textiles
	The month ended January 31, 2019		The month ended January 31, 2019
Net sales	\$ 89	Consolidated net income from continuing operations	\$ 15.6
Sales to related parties	4	Interest expense	-
Total sales	93	Income tax expense	2.7
Royalty and licensing income, net	-	Depreciation and amortization	1.0
Total revenue	93	EBITDA	19.3
Cost of goods sold and other operating expenses	65	Joint venture EBITDA adjustment	0.2
Gross profit	28	Noncontrolling interest EBITDA	(0.5)
Selling, general, and administrative expenses	10	Foreign exchange adjustment	0.2
Research and development expenses	2	L by LYCRA™ business venture start-up costs	0.1
Other (income), net	(2)	Purchase price accounting cost and other	0.3
Operating income	18	Adjusted EBITDA	\$ 19.6
Equity in (income) of affiliates	-		
Interest expense, net	-		
Income before income taxes	18		
Income tax expense	3		
Net income attributable to noncontrolling interest	-		
Net income attributable to The LYCRA Company	\$ 15		

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Significant factors that affect our results of operations

Various factors affect our operating results during each period, including:

COVID-19

Due to the global health crisis spawned by the significant spread of COVID-19, economies and financial markets around the world have been adversely affected, resulting in an economic downturn that is harming our business and causing operational results to suffer. Our operations, and those of our customers and suppliers, are experiencing delays or disruptions such as difficulty obtaining required materials, temporary suspension of operations, limitations on our ability to access office locations, and difficulties in processing orders and shipping goods.

The outbreak and worsening of the COVID-19 pandemic throughout most of 2020 had an adverse impact on our sales and liquidity position due to the significant slowdown in demand for spandex fibers in the apparel downstream market, offset slightly by increased LYCRA HyFit® fiber sales.

The most significant financial impact to our business was during the three months ended June 30, 2020. During this time, we experienced an approximately 42% decrease in net sales compared to the three months ended June 30, 2019, which can be largely attributable to a decline in market demand as a response to COVID-19. As a response to the decline in demand, our spandex facilities operated at 60% of capacity in order to conserve cash.

During the second half of 2020, we saw steadily increasing demand, with December LYCRA® fiber volumes reaching pre-COVID-19 levels outside of Asia, and Asia volumes reaching record levels. As a response to the increase in demand, we increased our utilization rate and by December 2020 were operating near full capacity. In addition, we did not experience any material customer defaults throughout 2020 as a result of COVID-19.

In response to the COVID-19 pandemic and ensuing decrease in demand for our products during the first half of 2020, we took actions to reduce expenses in areas such as travel, wages and salaries, and discretionary spending. To improve cash flows for 2020, we also leveraged income tax deferral benefits in jurisdictions around the world, all of which were resolved by December 31, 2020, and payroll tax deferrals in the U.S. which will continue to be realized through December 31, 2022. Additionally, the \$77 draw on our Revolving Credit Facility made during the three months ended June 30, 2020 to support any potential cash needs during COVID-19 was repaid during the three months ended September 30, 2020. Our surety bond issuer tightened its credit terms and has required cash collateralization of approximately \$7 which is reported in "Receivables, net" as of December 31, 2020.

Commodity prices

We are subject to commodity price risk related to the raw materials we purchase, and the energy costs associated with our production processes. The major raw materials we use in spandex production are derived from hydrocarbons which include PTMEG and MDI. Based on management estimates, PTMEG and MDI account for approximately 76% and 79% of the spandex ingredients cost for the years ended December 31, 2020 and 2019, respectively. PTMEG and MDI are petrochemicals derived from crude oil or natural gas. As such, the costs of the raw materials we use are significantly influenced by the overall costs of crude oil, natural gas, and other energy products derived from hydrocarbons. In some cases, the costs of these derivative petrochemicals can vary independently from the cost of crude oil or natural gas due to product-specific supply and demand forces, such as major maintenance turnarounds or specific supplier manufacturing events. At times, strong global demand for certain petrochemicals has contributed to a tight supply market for some of the raw materials we use. Additionally, the costs of certain raw materials and energy supplies, such as coal or natural gas, vary by region.

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The petrochemical industry has periodically experienced production outages. Force majeure situations are rare, but in the past, force majeure events at a key raw materials supplier created supply shortages and pricing pressure. The potential for future production outages at our suppliers' facilities and/or low raw materials inventories heightens the risk of future cost increases and/or supply chain disruptions for us. While we seek to maintain sufficient raw materials supply and inventories, a major outage or weather-related event within the petrochemical industry could have a significant impact on our operations, profitability, and cash flows.

Given the significance of raw materials and energy costs to total operating expenses and our limited ability to control raw materials and energy costs as compared to other operating costs, volatility in raw materials and energy costs could materially affect margins and cash flows. Historically, we have not hedged raw materials and energy costs.

General economic conditions and industry environment

Due to the wide variety of end-use applications for the types of products we produce, our overall level of sales tends to reflect fluctuations in downstream markets that are affected by manufacturing activity, consumer spending, apparel trends, and seasonality. Accordingly, we believe that revenues depend in large part on general macro-economic conditions in the global markets that we serve, as well as on regional economic conditions in the markets in which we operate. For example, our apparel end-use demand was significantly impacted by the impact of COVID-19 on the apparel industry during the first half of 2020. Hygiene end-use demand grew as a result of the stockpiling behaviors following the outbreak of COVID-19, increasing sales of our LYCRA HyFit® fiber. Prior to the outbreak of COVID-19, the spandex fiber market grew as a result of global population growth, global gross domestic product growth, increased spandex penetration in both apparel and personal care products, and the creation of new end uses. The industry cycle is characterized by periods of tight supply of spandex throughout the industry leading to high production capacity utilization rates and higher margins, followed by periods of oversupply, primarily as a result of significant generic spandex production capacity additions, leading to a decline in production capacity utilization rates and lower margins. This cycle more heavily impacts our ELASSPAN® fiber and nylon activities and has a lesser impact on our branded products. Historically, we tend to operate our spandex plants at high utilization rates, and even during periods of oversupply of generic fiber, we have not significantly reduced overall production capacity, opting instead to alter our product mix to meet market demand of high margin LYCRA® fiber and LYCRA HyFit® fiber and produce ELASSPAN® fiber on the incremental capacity. In 2019, we chose to optimize working capital by reducing production at certain production facilities to lessen our inventory levels. In addition, at the end of March 2020, we chose to curtail production at our manufacturing facilities in order to avoid building inventory as a result of the impact the outbreak of COVID-19 had on demand. As of December 2020, we have increased our utilization rate and are now operating near full capacity. Over the long term, we and our competitors independently affect available production capacity by either operating or idling facilities, by building new production capacity, or shutting down existing production capacity. Our margins tend to decrease with lower production capacity utilization because of fixed costs attributable to a product being spread across lower volumes.

Seasonality

Demand for our spandex fiber is strongest in the spring and fall seasons as our textile customers build inventory for summer and winter fashions. For example, in the PRC, although it varies from year-to-year, demand for spandex fiber tends to be highest from September to November and from immediately after the Chinese New Year holiday to April or May. August demand is also negatively impacted by seasonality in Europe.

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Facility downtime

We periodically undertake scheduled major maintenance activities, and our working capital levels are impacted by this. Typically, when planned manufacturing idling has occurred, it has been during our low seasonality periods in the fourth quarter when our customers have excess inventory on hand. In preparation for these planned turnaround events, which are primarily connected to our (now closed) PTMEG facility in La Porte and occur approximately every three years, we increase inventory, which contributes to working capital fluctuations. Accordingly, we may experience volatility in our cash flows and earnings during any such period.

Additionally, plant outages, unplanned downtime, and/or curtailments of operations, either temporary or permanent, could adversely impact profitability and cash flows. Our spandex manufacturing facilities operated with an average uptime rate of approximately 79% and 85% for the years ended December 31, 2020 and 2019, respectively. Our PTMEG facility in La Porte, which, ceased production during the middle of October 2020 in anticipation of the site closure, had operated with an average uptime rate of approximately 65% up until its closure in October 2020 as compared to 66% for the year ended December 31, 2019.

Currency fluctuations

For all of our operations, except in the PRC, the functional currency is the U.S. dollar. We conduct business in various other global currencies including Chinese yuan, Brazilian reais, euros, and Mexican pesos. Approximately 51% and 46% of our net sales for the years ended December 31, 2020 and 2019, respectively, were in currencies other than U.S. dollars. Prices for our products are generally denominated in or priced relative to U.S. dollars even when sold to customers located outside the United States. Our exposures are primarily related to non-U.S. dollar (1) debt, (2) deferred taxes, and (3) receivables on foreign sales. These are recognized in the income statement as a gain or loss on foreign currency revaluation within "Other expense, net".

The portion of our cost of goods sold and other operating expenses, primarily payroll and rent, outside the U.S. are predominately denominated in currencies other than the U.S. dollar, and as a result can impact our financial results because of changing exchange rates as compared to the U.S. dollar. See "*Quantitative and qualitative disclosure of market risks—Currency risks.*"

Product mix

Product mix has an impact on the overall performance of our business. Our products include spandex fibers (differentiated and minimally-differentiated), nylon fibers, specialty polyester, and PTMEG. Our differentiated products are composed of a broad and specialized product line, technical and marketing support to customers, and a globally integrated supply chain to maintain significantly higher pricing positions when generics prices fall. Spandex fibers generate the majority of our gross profit, accounting for more than 90% and 80% of our gross profit for the years ended December 31, 2020 and 2019, respectively, with our differentiated fibers contributing the highest marginal return for all of our products. A change in our product mix due to volume, price, and associated raw material costs will impact our overall business results. Our focus is to implement strategies that drive our high margin-differentiated fibers sales, which carry premium pricing. Our decision to exit the TERATHANE® product line supports our product mix strategy.

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Price policy

Our differentiated products accounted for approximately 90% and 86% of total fiber sales for the years ended December 31, 2020 and 2019, respectively. As a result, we continue to focus on expanding our differentiated product positions to support improved margins. Our minimally-differentiated products are targeted to compete with generic fibers, at a slight price premium to generic. Overall, our minimally-differentiated products have few distinguishing qualities from our competition, and pricing is based primarily on raw material supply relative to demand. Generally, market conditions beyond our control determine the price for minimally-differentiated products, and the price for any one or more of these products may fall below our cost to produce. Therefore, our margins are principally dependent on the quality and differentiation of our product line, our technical and marketing support, managing cost structure, and changes in raw materials, transportation, and energy costs, which represent significant components of our operating costs.

We generally do not enter into long-term contracts. However, a few of our branded fiber customers have price/volume agreements which set a price based on expected purchase volumes. Price changes in those contracts may occur based on raw material cost increases and to retain product availability in a tight market.

Key performance indicators

Sales by geographic area

Our business sells products in more than 80 countries. Approximately 52% of our global sales for the year ended December 31, 2020 were concentrated in four countries: the PRC, the United States, Brazil, and Italy, which accounted for 22%, 18%, 6%, and 6% of sales, respectively, compared to approximately 53% of our global sales for the year ended December 31, 2019, concentrated in the same four countries, which accounted for 22%, 18%, 7% and 6% of sales, respectively.

The spandex fiber market has continued to grow over the last several years as a result of global population growth, global GDP growth, and increased penetration in both apparel and personal care products.

Key line items in our income statement

Total revenue

Total revenue includes net sales, sales to related parties, and royalty and licensing income. Total revenues are influenced by generic fiber pricing, raw material costs, the condition of the global economy, and apparel industry trends. Net sales represent total sales to third parties offset by sales reductions made up of rebates and claims which together represented approximately 1% of total sales for the years ended December 31, 2020 and 2019. Sales rebates are available to customers based on purchased volumes. Customers purchasing specified volumes can receive rebates on their overall purchases or reductions on pricing for future purchases. Claim payments occur when a deficiency in the products we manufacture negatively impacts our customers' end products. These payments are minimal and historically represented less than 0.1% of our sales during each applicable fiscal period.

Sales to related parties are primarily sales to equity affiliate joint ventures and investor companies at prevailing market price, and they represent approximately 2% of our total sales for the year ended December 31, 2020, compared to approximately 4% of our total sales for the year ended December 31, 2019. The investor companies represent sales to Itochu Corporation affiliates and INVISTA (Taiwan) Limited prior to the Taiwan Acquisition Closing Date.

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Cost of goods sold and other operating expenses

Cost of goods sold and other operating expenses includes all costs of manufacturing to bring a product to saleable condition. Such costs include cost of raw materials, direct and indirect labor costs, depreciation, maintenance and repair expense, utilities (primarily energy costs), supplies, amortization of definite-lived intangible assets, pension benefits, and other manufacturing-related costs. The largest component of our costs of goods sold and other operating expenses is the cost of raw materials, and the most significant components of this are the costs associated with PTMEG and MDI. For the year ended December 31, 2020, raw materials, packaging, and energy accounted for approximately 61% of our cost of goods sold and other operating expenses compared to approximately 65% of our cost of goods sold and other operating expenses for the year ended December 31, 2019. Excluding Purchase Price Allocation adjustments, raw materials, packaging, and energy accounted for approximately 64% of cost of goods sold and other operating expenses for the year ended December 31, 2019.

Selling, general and administrative expenses

Selling, general and administrative expenses primarily include sales and marketing, finance, administration, human resources, and information technology costs. Selling, general and administrative expenses include salaries and wages, benefits, advertising and promotion costs, information technology costs, and bad debt expense.

Research and development expenses

Research and development expenses primarily include costs associated with the innovation and development of new products, support for branded fibers, and technical and product customer support, including related capital expenditures.

Restructuring expenses

Restructuring reflects costs associated with restructuring plans, including site closures and workforce reductions.

Goodwill impairment

Goodwill impairment reflects the loss recognized as a result of the annual goodwill impairment test when the carrying value of a reporting unit exceeds its fair value.

Transaction related costs

Transaction related costs include advisory, legal, accounting, and other professional or consulting fees incurred as a result of the Acquisition.

Other (income) expense, net

Other (income) expense, net typically includes gains or losses related to the revaluation of elements of our balance sheet, taxes other than income, and non-recurring items such as asset sales.

Interest expense, net

Interest expense, net primarily includes costs associated with the Dollar Notes and Euro Notes indebtedness and other debt arrangements.

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Equity in (income) of affiliates

Equity in (income) of affiliates represents our interest in the income of our joint ventures, including our 50% ownership interests in Toray Opelontex Co., Ltd; ISH-Toray Pte. Ltd.; and, following the Taiwan Acquisition Closing Date, Shinpont Industry Inc.

Pension non-service cost (income)

Pension non-service cost (income) represents the net of the expected return on assets and the interest cost components of the net periodic pension and other post-retirement benefit expense and other one-time pension non-service costs.

Net (income) loss attributable to noncontrolling interest

Net (income) loss attributable to noncontrolling interest represents the minority interests' share of income or loss due to entities that hold a noncontrolling interest in our Singapore subsidiary, in which the minority interest holder owns 20% of the outstanding equity. The minority interest holder is ISH-Toray Pte. Ltd., an equity affiliate owned 50% by The LYCRA Company.

Results of operations

Summary Combined Consolidated Financial Presentation

The following presentation reflects the summary audited consolidated financial results for the year ended December 31, 2020.

For the year ended December 31, 2019, the following presentation also includes the combined estimated financial results (based on management estimates) of INVISTA Apparel and Advanced Textiles for the period from January 1, 2019 to January 31, 2019 and the summary audited consolidated financial statements of Parent for the year ended December 31, 2019 (including eleven months of operations of the Company following the consummation of the Acquisition).

Prior to the consummation of the Acquisition, the only operations of Parent were related to Parent's interest in the escrowed Notes proceeds prior to such proceeds' application in connection with the consummation of the Acquisition.

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	Parent⁽¹⁾	Combined Management Estimated Results⁽²⁾
	For the year ended December 31,	
	2020	2019
Net sales	\$ 863	\$ 980
Sales to related parties	22	44
Total sales	885	1,024
Royalty and licensing income, net	2	3
Total revenue	887	1,027
Cost of goods sold and other operating expenses	689	840
Gross profit	198	187
Selling, general and administrative expenses	113	135
Research and development expenses	27	30
Restructuring expenses	18	6
Goodwill impairment	-	179
Impairment of long-lived assets	9	-
Transaction related costs	1	14
Other expense, net	38	2
Operating (loss)	(8)	(179)
Equity in (income) of affiliates	(6)	(7)
Pension non-service cost (income)	16	(5)
Interest expense, net	82	75
(Loss) before income taxes	(100)	(242)
Income tax expense	21	11
Consolidated net (loss)	(121)	(253)
Net (income) loss attributable to noncontrolling interest	(7)	3
Net (loss) attributable to The LYCRA Company	\$ (128)	\$ (250)

(1) Reflects the summary audited consolidated financial statements of Parent for the year ended December 31, 2020.

(2) Reflects the combination of the estimated financial results of INVISTA Apparel and Advanced Textiles for the month ended January 31, 2019 and the summary consolidated financial statements of Parent for the year ended December 31, 2019.

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Total sales

"Total sales" for the years ended December 31, 2020 and 2019 were \$885 and \$1,024, respectively. Sales have been negatively impacted by lower global demand due to COVID-19, especially during the first half of 2020. Sales of LYCRA HyFit® fiber remain strong due to favorable market conditions and favorable demand impacts of COVID-19.

Total Revenue

"Total revenue" for the years ended December 31, 2020 and 2019 was \$887 and \$1,027, respectively.

Cost of goods sold and other operating expenses

"Cost of goods sold and other operating expenses" were \$689 and \$840 for the years ended December 31, 2020 and 2019, respectively. The significant decrease in the current year is due to lower sales volumes and lower variable costs as a percentage of sales due to PTMEG and MDI price decreases, partially offset by a change in the estimation basis for the fixed costs in inventory which reduced inventory by \$6, compared to the prior year which included \$8 of turnaround costs for La Porte and an inventory step-up of \$34 related to Purchase Price Allocation.

Selling, general and administrative expenses

"Selling, general and administrative expenses" were \$113 and \$135 for the years ended December 31, 2020 and 2019, respectively. These include administrative, selling, marketing, and advertising and promotion costs. The reduction in the current year is principally due to lower personnel costs following the 2019 restructuring (which related to the reduction of The LYCRA Company's global workforce a part of the restructuring plan announced in August 2019), and lower spend in areas such as travel, wages and salaries, and discretionary spending as a response to COVID-19.

Research and development expenses

"Research and development expenses" were \$27 and \$30 for the years ended December 31, 2020 and 2019, respectively.

Restructuring expenses

In connection with strategic initiatives and restructuring activities, we recognized restructuring expenses of \$18 and \$6 for the years ended December 31, 2020 and 2019, respectively. Restructuring costs for 2020 were due to the shutdown of the La Porte facility and relate to asset write-downs, take or pay obligations, contract terminations, on-going service level agreement costs, and severance payments, as well as asset write-downs related to a restructuring in Waynesboro, Virginia. Restructuring costs for 2019 relate to the reduction of The LYCRA Company's global workforce as part of the restructuring plan announced in August 2019.

Goodwill impairment

As of December 31, 2020 and 2019, we recognized goodwill impairment charges of \$0 and \$179 respectively. The impairment charge recognized in 2019 was a result of the annual test which found that the carrying amount of goodwill exceeded the estimated fair value, therefore the impairment is equal to the excess of the carrying amount compared to the estimated fair value. The impairment was a result of pricing pressures on a strengthening U.S. dollar and lower near-term branded product volumes.

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Impairment of long-lived assets

During 2020, we identified indicators of impairment related to our polyurethane intermediates facility in La Porte, Texas. Indicators, including market over-supply and related pricing pressures, led to the evaluation of the La Porte facility for impairment. Undiscounted cash flows expected to result from the use and eventual disposition of the assets were less than the carrying amounts of the assets. As a result, the carrying amounts of the assets are deemed not recoverable. On June 30, 2020, we announced our decision to close the facility at La Porte by the end of 2020 and exit the supply of PTMEG and BDO, reported as the TERATHANE® product line. As a result of this decision, we recorded \$9 of long-lived asset impairment to reduce the carrying value of the property, plant and equipment at this site to \$0.

Transaction related costs

"Transaction related costs" for the years ended December 31, 2020 and 2019, were \$1 and \$14, respectively. These costs include professional fees incurred as a result of the Acquisition.

Other expense, net

"Other expense, net" was \$38 for the year ended December 31, 2020, primarily driven by foreign currency exchange losses of \$24 on the Euro Notes and foreign currency losses primarily on intercompany transactions with our operations in the PRC, whose functional currency is Chinese yuan and whose currency translation impacts are reflected within Other Comprehensive Income or (Loss). "Other expense, net" was \$2 for the year ended December 31, 2019 including \$(6) of foreign currency exchange gains on the Euro Notes, offset primarily by other foreign currency exchange losses and higher pension service costs.

Equity in (income) of affiliates

"Equity in (income) of affiliates" was \$(6) and \$(7) for the years ended December 31, 2020 and 2019, respectively.

Pension non-service cost (income)

Pension non-service costs for the year ended December 31, 2020 were \$16 primarily due to the liquidation and collective value transfer of the Dutch pension scheme. For the year ended December 31, 2019, pension non-service (income) was \$(5).

Interest expense, net

"Interest expense, net" was \$82 and \$75 for the years ended December 31, 2020 and 2019, respectively. The increase in 2020 is due to interest on the Promissory Note accruing beginning August 1, 2019. The interest rate was reduced from 10% to 7.5% per annum beginning August 30, 2019, and then increased to 12% beginning July 31, 2020. Additionally, the higher interest expense is attributable to increased borrowings under the Revolving Credit Facility during 2020.

Income tax expense

For the years ended December 31, 2020 and 2019, income tax expense was \$21 and \$11, respectively. The effective tax rate was (21.0)% for the year ended December 31, 2020 compared to (4.5)% for the year ended December 31, 2019. The effective tax rates differ from the Netherlands' statutory rate of 25% primarily due to losses for tax purposes generated in jurisdictions with full valuation allowances and taxable income earned in jurisdictions with statutory tax rates that are lower than the Netherlands' statutory rate.

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Net (income) loss attributable to noncontrolling interest

For the years ended December 31, 2020 and 2019, net (income) loss attributable to noncontrolling interest was \$(7) and \$3, respectively.

Reconciliation of Non-GAAP Financial Measures

EBITDA consists of consolidated net income (loss) adjusted to eliminate (i) interest expense, (ii) income tax expense (benefit), and (iii) depreciation and amortization. Adjusted EBITDA is EBITDA adjusted for (a) non-operating income or expense, (b) the impact of certain non-cash and other items that are included in net income for the periods presented that we do not consider indicative of our ongoing operating performance, and (c) unusual items impacting results in a particular period to more accurately reflect management's view of the recurring profitability of the business.

EBITDA and Adjusted EBITDA are not calculated or presented in accordance with GAAP, and other companies in our industry may calculate EBITDA and Adjusted EBITDA differently than we do. As a result, these financial measures have limitations as analytical and comparative tools and you should not consider these items in isolation, or as a substitute for analysis of our results as reported under GAAP. EBITDA and Adjusted EBITDA should not be considered a measure of discretionary cash available to us to invest in the growth of our business. In calculating these financial measures, we make certain adjustments that are based on assumptions and estimates that may prove to have been inaccurate. In addition, in evaluating these financial measures, you should be aware that in the future we may incur expenses similar to those eliminated in this presentation. Our presentation of EBITDA and Adjusted EBITDA should not be construed as an inference that our future results will be unaffected by unusual or non-recurring items. For additional information regarding EBITDA and Adjusted EBITDA and our use and presentation of those measures and the related risks, see "*Use of Non-GAAP financial measures.*"

The following table reconciles consolidated net loss to EBITDA and Adjusted EBITDA for the periods presented (unaudited):

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	Parent ⁽¹⁾	Combined Management Estimated Results ⁽²⁾
	For the year ended December 31,	
	2020	2019
Consolidated net (loss) from continuing operations	\$ (121.4)	\$ (251.9)
Interest expense	81.9	75.4
Income tax expense	21.2	10.7
Depreciation and amortization ^(a)	74.3	55.8
EBITDA	56.0	(110.0)
Joint venture EBITDA adjustment ^(b)	5.7	4.8
Noncontrolling interest EBITDA ^(c)	(9.5)	(8.7)
Foreign exchange adjustment ^(d)	(0.1)	(0.6)
Foreign exchange on bonds ^(e)	24.0	(6.4)
Purchase price accounting cost and other ^(f)	2.3	14.1
Change in fixed cost estimation basis ^(g)	5.5	-
Pension non-service cost (income) ^(h)	16.2	(4.5)
Impairment of long-lived assets at La Porte ⁽ⁱ⁾	8.7	-
La Porte restructuring ^(j)	15.2	-
Restructuring ^(k)	3.4	5.9
Financing costs ^(l)	3.2	-
La Porte post-closure costs ^(m)	8.8	-
Impact of PRC functional currency ⁽ⁿ⁾	8.1	-
L by LYCRA™ business venture start-up costs ^(o)	-	1.1
Pension true-up ^(p)	-	3.5
January foreign currency remeasurement ^(q)	-	0.4
Inventory step-up ^(r)	-	33.5
Goodwill impairment expense ^(s)	-	179.4
New business development costs ^(t)	-	1.6
Non-cash impairment expense ^(u)	-	0.6
La Porte turnaround ^(v)	-	8.0
Adjusted EBITDA	\$ 147.5	\$ 122.7

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- (1) Reflects the summary audited consolidated financial statements of Parent for the year ended December 31, 2020.
- (2) Reflects the combination of the estimated financial results of INVISTA Apparel and Advanced Textiles for the month ended January 31, 2019 and the summary consolidated financial statements of Parent for the year ended December 31, 2019.
 - (a) Represents depreciation and amortization, which was restarted in January 2019 after Property, plant, and equipment was moved from held-for-sale. The full cost was not reflected in inventory until April 2019.
 - (b) Represents an adjustment to conform the Company's share of equity earnings associated with the Toray Opelontex Co., Ltd; ISH-Toray Pte. Ltd; and Shinpont Industry Inc. joint ventures from net income to EBITDA.
 - (c) Represents the share of EBITDA attributable to the noncontrolling interest of The LYCRA Company Singapore Pte. Ltd.
 - (d) Represents foreign currency remeasurement relating to income taxes, most significantly in Brazil, the PRC, and Switzerland.
 - (e) Represents the amount of foreign currency remeasurement loss (gain) on the Euro Notes.
 - (f) Represents the one-time cost incurred for Purchase Price Allocation work and other nonrecurring costs.
 - (g) Represents the adjustment to re-align the balance sheet to a change in the basis of estimation used within our existing fixed cost accounting policy for 2020.
 - (h) Pension non-service cost represents the expense related to the liquidation and collective value transfer of the Dutch pension scheme. Pension non-service (income) represents the net of the expected return on assets and the interest cost components of the net periodic pension and other post-retirement benefit expense.
 - (i) Represents the expense related to full impairment of the long-lived assets of the La Porte polyurethane intermediates facility.
 - (j) Represents the expense related to the La Porte restructuring, including asset write-downs, take or pay obligations, contract terminations, on-going service level agreement costs, and severance payments.
 - (k) Represents the removal of equipment abandonment charge in Waynesboro, Virginia and severance costs associated with the global workforce reduction plan announced August 12, 2019.
 - (l) Represents one-time costs related to the Revolving Credit Facility Amendment and Waiver agreement and extending the Promissory Note maturity date.
 - (m) Represents costs incurred at La Porte during the fourth quarter of 2020 following cessation of operations.

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- (n) Represents impacts from foreign currency remeasurement losses primarily on intercompany activity with our operations in the PRC, whose functional currency is the Chinese yuan and whose currency translation impacts are reflected within Other Comprehensive Income or (Loss).
- (o) Represents selling, marketing and other non-personnel venture start-up costs relating to our L by LYCRA™ business venture.
- (p) Represents the true-up of the pension accrual paid out in February 2020 related to the Acquisition.
- (q) Represents EBITDA for Parent from January 1, 2019 through January 31, 2019, primarily consisting of foreign currency remeasurement.
- (r) Represents the removal of the Purchase Price Allocation adjustment to step up inventory to fair value as of January 31, 2019. All stepped up material costs have been reallocated from inventory into cost of goods sold within the year ended December 31, 2019.
- (s) Represents the impairment loss, which is equal to the excess of the carrying amount of goodwill over the implied fair value.
- (t) Represents costs associated with new business development. Inventory accruals for the new, high productivity LYCRA HyFit® fiber are included in 2019.
- (u) Represents removal of the accretion expense on the measurement of the La Porte plant asset retirement obligation.
- (v) Represents the cost of the La Porte planned maintenance turnaround which has been historically capitalized and amortized over the period between the current and subsequent turnarounds.

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Guarantors/Non-Guarantors

For the years ended December 31, 2020 and 2019, the Guarantors represented approximately 52% and 69% of Adjusted EBITDA and approximately 75% and 78% of total sales, respectively, excluding transactions with Non-Guarantors. As of December 31, 2020 and 2019, the Guarantors represented approximately 90% and 88% of combined total assets, respectively, excluding asset balances related to transactions with Non-Guarantors.

As a result of local law restrictions, our subsidiary organized under the laws of the PRC is not permitted to, and does not, guarantee the Notes. For the years ended December 31, 2020 and 2019, such subsidiary organized under the laws of the PRC represented approximately 47% and 31% of Adjusted EBITDA, respectively, and approximately 20% of total sales, excluding transactions with the Guarantors. As of December 31, 2020 and 2019, such subsidiary organized under the laws of the PRC represented approximately 9% and 11%, respectively, of combined total assets, excluding asset balances related to transactions with the Guarantors.

Liquidity and capital resources

Liquidity describes the ability of a company to generate sufficient cash flows to meet the cash requirements of its business operations, including working capital needs, capital expenditures, debt service, acquisitions, and other commitments and contractual obligations. We consider liquidity in terms of net cash provided by operating activities, net cash used in investing activities, and net cash used in financing activities.

We finance our liquidity requirements through net cash provided by operating activities, proceeds from the issuance of debt securities, borrowings under our Revolving Credit Facility, and working capital management activities. Our principal liquidity requirements are for working capital, capital expenditures, and servicing intercompany indebtedness.

We anticipate that our cash flows from operations, combined with the available cash on our balance sheet and the availability under our Revolving Credit Facility, will be sufficient to fund our anticipated debt service requirements, working capital requirements, and capital expenditures. As of December 31, 2020 and 2019, we had total cash and cash equivalents of approximately \$117 and \$87, respectively.

From time to time, we consider strategic opportunities to expand our operations and leverage our capabilities. This includes the evaluation of acquisitions and co-investment opportunities as these opportunities arise, and we may engage in varying levels of negotiations with potential counterparties for any such transaction at any time. If we pursue any of these potential opportunities, we may require additional capital resources to consummate a transaction, and we can provide no assurance that we may be able to obtain such capital resources on favorable terms, or at all.

We have purchased a portfolio of insurance policies that transfers risk above reasonable deductibles to various third-party underwriters. These policies include statutory, contractual, and discretionary liability coverages with most backed by a substantial excess liability umbrella. Property damage and business interruption insurance with retention levels reflecting management and shareholder risk tolerance is purchased for all manufacturing facilities and business support offices. We can provide no assurance that we will be able to obtain or maintain insurance coverage that we consider appropriate for our needs at a reasonable cost, or at all.

Our ability to make payments on our debt, including the Notes, to raise new capital resources, and to fund planned capital expenditures will depend on our ability to generate cash in the future. This, to a certain extent, is subject to general economic, financial, competitive, legislative, regulatory, and other factors

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beyond our control. We can provide no assurance that our business will generate sufficient cash flows from operations or that we will be able to raise alternative capital resources on commercially reasonable terms, or at all, in amounts sufficient to meet our future liquidity needs.

In addition, a significant portion of our current operations, including all of our co-investments and many of our strategic investments, are conducted and located outside the United States. There are varying degrees of risk and uncertainty in each of the countries in which we operate. As a global company, we are dependent on cash inflows from our subsidiaries in order to fund our global liquidity needs. To the extent that our subsidiaries do not generate enough cash flows to cover liquidity needs in each respective jurisdiction, we are dependent on cash movements and repatriations between our various U.S. and non-U.S. subsidiaries, including co-investments and strategic investments. We can provide no assurance that we will be able to move or otherwise repatriate cash due to applicable laws of local jurisdictions, various co-investment agreements, or other restrictions. The inability to repatriate or otherwise move cash could negatively impact our ability to meet our future liquidity needs.

The Indenture governing the Notes limits our ability and the ability of our restricted subsidiaries to, among other things, incur additional indebtedness, pay dividends, make loans or investments, and merge or sell all or substantially all of our assets.

We may choose to draw on the Revolving Credit Facility in the future depending upon our working capital, capital expenditure, and other general corporate needs. We are subject to certain customary covenants under the Revolving Credit Facility Agreement, which impose restrictions on, among other things, additional indebtedness, liens, investments, advances, guarantees, and mergers and acquisitions.

At June 30, 2020, outstanding utilizations of the Revolving Credit Facility totaled \$98, including borrowings of \$97 and guarantees of \$1, collectively representing 98% of total Revolving Credit Facility commitments. On August 6, 2020, The LYCRA Company and the Revolving Credit Facility Lenders executed an Amendment and Waiver Agreement whereby the Revolving Credit Facility Lenders confirmed a waiver of the requirement for The LYCRA Company to test the financial covenant for the three months ended June 30, 2020. The LYCRA Company was in compliance with the financial covenant at September 30, 2020. The waiver expired upon the delivery of The LYCRA Company's financial statements for the three months ended September 30, 2020 on November 25, 2020. The Amendment and Waiver Agreement did not modify the interest rate under the Revolving Credit Facility and contains other customary terms and conditions. At December 31, 2020, outstanding utilizations of the Revolving Credit Facility totaled \$21, including borrowings of \$20 and guarantees of \$1.

A side letter to the Acquisition Agreement was entered into on January 31, 2019 and subsequently amended on April 26, 2019 to, among other things, allow for \$78 to be paid under the Promissory Note for the purpose of satisfying the working capital closing adjustment. The Promissory Note was amended and restated on August 30, 2019, in connection with the Taiwan Acquisition. The principal amount and interest under the Promissory Note is payable in two tranches: \$25 of principal on July 31, 2019, which The LYCRA Company satisfied, and the remaining principal amount plus all accrued but unpaid interest on July 31, 2020. Interest accrued on the unpaid principal amount of the Promissory Note outstanding from and including July 31, 2019 until payment in full of all amounts due and would be compounded and capitalized as principal on a quarterly basis (calculated daily) at an initial rate of 10%, and a reduced rate of 7.5% per annum beginning August 30, 2019 per the amended agreement.

During 2020, the Promissory Note was amended and restated to extend the maturity date to November 30, 2020, and set the interest rate at 12% per annum, which interest accrued on the unpaid principal amount outstanding from and including July 31, 2020. The Promissory Note was ultimately repaid in full

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(along with accrued and unpaid interest) by January 8, 2021 (see Note 17, *Subsequent Events* within the Notes to the Consolidated Financial Statements).

Working capital requirements

Our liquidity requirements depend on a number of factors, primarily including (1) the amount of working capital required to purchase raw materials and energy to run our plant operations, the cost of which is volatile, and (2) the effect of seasonality on our business. Our business lines experience seasonality based upon demand for our products that are used as components of clothing. Our business lines are also impacted by increasing working capital in preparation for regularly scheduled maintenance at our production facilities. During normal operations, our business has typically generated sufficient cash flows to manage our overall liquidity needs. However, we cannot assure you that this will continue in the future. During periods of growth, we may invest in capital expenditures above cash flow generation.

Substantially all of our joint ventures generate sufficient cash flows to support their working capital and planned capital expenditure needs. If a joint venture intends to undertake a significant expansion of operations or other capital activity that would require capital in excess of the cash flows it generates, generally the joint venture agreement requires that the co-investment obtain the consent of the shareholders before such shareholders are subject to any additional capital calls.

The equity method is used to account for entities in which we own 50% or less. Sales to and purchases from entities accounted for using the equity method are reported at a gross amount. For subsidiaries in which ownership is greater than 50% but less than 100%, the outside investor’s interests are reported as a noncontrolling interest.

Capital expenditures

Our facilities capital expenditures represent the main component of our investing activities. Our capital expenditures requirements are classified as (1) Maintenance Capex and (2) Growth Capex.

We are continually investing in maintenance, refurbishment, and replacement of machinery and equipment, which generally have a useful life of three to twenty years. Our capital expenditures for the years ended December 31, 2020 and 2019 were \$6 and \$15, respectively.

In some cases, compliance with environmental, health, and safety laws and regulations can only be achieved by capital expenditures such as the installation of pollution control equipment. We anticipate that the need to invest in environmental compliance and pollution controls will continue, and although it is not possible to predict future expenditures with certainty, management expects capital expenditures to increase for various growth-related projects.

Expenditures for the year ended December 31, 2020 were associated with annual maintenance costs spread among nearly all of our facilities. Expenditures for the year ended December 31, 2019 were associated with annual maintenance costs, the new PRC Advanced Textile Innovation Center, and our new headquarters located in Wilmington, DE.

	Parent	
	For the year ended December 31,	
	2020	2019 ⁽¹⁾
Maintenance Capex	\$ 5	\$ 12
Growth Capex	1	3
	\$ 6	\$ 15

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(1) Excludes the estimated financial results of INVISTA Apparel and Advanced Textiles for the month ended January 31, 2019, estimated to be \$1.

Historical cash flow data

The following table shows our cash flows for the period indicated.

	Parent		
	For the year ended December 31,		
	2020	2019 ⁽¹⁾	Change
Net cash provided by operating activities	\$ 86	\$ 93	\$ (7)
Net cash (used in) investing activities	(7)	(2,342)	2,335
Net cash (used in) provided by financing activities	(49)	1,390	(1,439)

(1) Excludes the estimated financial results of INVISTA Apparel and Advanced Textiles for the month ended January 31, 2019, for which no estimate is available.

"Net cash provided by operating activities" decreased by \$(7) for the year ended December 31, 2020.

"Net cash (used in) investing activities" decreased by \$2,335 for the year ended December 31, 2020, compared to the prior year, driven by \$2,327 for the Acquisition in 2019 and \$8 lower capital expenditures during 2020, which was primarily due to COVID-19.

In 2020, net cash (used in) financing activities consisted principally of payments of principal on the Promissory Note of \$(35), the final Taiwan Acquisition payment of \$(10), and settlement of deferred financings costs of \$(4). In 2019, net cash provided by financing activities was driven by \$1,438 of contributed capital and \$20 net draws on the RCF, offset by settlement of deferred financing costs of \$(26), payment of principal on the Promissory Note of \$(25), a Taiwan Acquisition payment of \$(5), dividends to the noncontrolling interest of \$(6), and a deemed dividend to Ruyi of \$(6).

Pension liabilities

We also have obligations with respect to pension and other post-retirement benefits. As of December 31, 2020 and 2019, we had funded and unfunded plans in which the aggregate amount of the projected benefit obligations exceeded the fair value of plan assets by \$14 and \$18, respectively. Normal funding of these liabilities has been and is expected to be satisfied from our general assets and cash flows. Our pension and other post-retirement benefit plans costs and obligations are dependent on various actuarial assumptions, and the results of each of the plans and corresponding future funding obligations could vary based upon the actual short-term and long-term results of the assumptions as compared to the estimated assumptions.

Off-balance sheet arrangements

We rent certain land, storage facilities, office space, equipment, vehicles, and railcars. These rental agreements expire at various dates through 2049 and provide for renewal options. We have other purchase commitments for certain operating supply contracts, capital projects, and services. These other purchase obligations were \$23 for the period ended December 31, 2020, compared to \$30 for the period ended December 31, 2019, reflecting, on a non-GAAP combined basis, the estimated financial results of INVISTA Apparel and Advanced Textiles for the month ended January 31, 2019, based on management estimates, and the historical consolidated financial information of Parent. The decrease in purchase obligations is primarily driven by reductions in the current and future obligations related to the shutdown of our La Porte facility.

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Selected critical accounting policies

There have been no material changes in the matters for which we make critical accounting estimates in the preparation of our consolidated financial statements as of December 31, 2020, as stated in Note 2 *Summary of significant accounting policies and practices* within the Notes to the Consolidated Financial Statements.

Recently adopted accounting pronouncements

There have been no material changes to recently adopted accounting pronouncements as of December 31, 2020, as stated in Note 2 *Summary of significant accounting policies and practices – Recently issued accounting standards* within the Notes to the Consolidated Financial Statements.

As of January 31, 2019, The LYCRA Company adopted ASC 606 and all related amendments using the modified retrospective method, which The LYCRA Company applied only to contracts that were not completed as of January 31, 2019. For reporting periods beginning on January 1, 2019, The LYCRA Company presents revenue in accordance with ASC 606. Adoption of this standard did not result in significant changes to The LYCRA Company's accounting policies, business processes, systems, or controls, or have a material impact on its financial position, consolidated net income, and cash flows. See Note 2 *Summary of significant accounting policies and practices – Revenue recognition* within the Notes to the Consolidated Financial Statements.

Quantitative and qualitative disclosure of market risks

We are exposed to various market risks as part of our business activities. Several of these risks are described in detail in the "Risk Factors" section elsewhere in this annual report. We do not enter into financial instruments for trading or speculative purposes.

The main risk areas that may have a material impact on our business performance, as well as our financial position and results of operations, are described below.

COVID-19

The impact of the COVID-19 pandemic is fluid and continues to evolve, and therefore we cannot currently predict the extent to which our business, results of operations, or financial condition will ultimately be impacted. In particular, we cannot predict the extent to which the COVID-19 pandemic will affect our business, results of operation, or financial condition in the long term because the duration and severity of the pandemic and its negative impact on the economy, including our customers, is unclear. The impact of the COVID-19 pandemic on us will also be dependent on: the resiliency of the apparel market and consumer spending more broadly, actions taken by national, state, and local governments to contain the disease or treat its impact, and any prolonged economic recession resulting from the pandemic. We do not expect economic and operating conditions for our business to improve until consumers are once again confident in the strength of the economy, and this may not occur until well after the pandemic abates. There is no certainty that current mitigating measures, or any additional actions that we may take in the future, will be successful in mitigating the impact of the pandemic on our business, results of operations, or financial condition.

We currently expect that the COVID-19 outbreak will continue to impact our financial performance into 2021, particularly to the extent of a resurgence of the COVID-19 pandemic. We are unable to predict the ultimate impact of any such resurgence or the re-imposition or continuation of restrictive measures designed to combat the COVID-19 pandemic by national, regional, and local governments.

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Currency risks

We conduct operations in many countries around the world. Our results of operations are subject to both currency transaction risk and currency translation risk. We consider the U.S. dollar to be our primary functional currency, however the Chinese yuan is the functional currency for our operations in the PRC, and, as such, exchange rate differences are included as a currency translation adjustment within accumulated other comprehensive loss in our Consolidated Statement of Shareholder's Equity for the year ended December 31, 2020. We incur currency transaction risk whenever we enter into either a purchase or sale transaction using a currency other than the functional currency of the transacting entity. With respect to currency transaction risk, our financial condition and results of operations, including our Euro debt, are measured and recorded in the relevant domestic currency and then remeasured into U.S. dollars for inclusion in our combined financial statements. Exchange rates between these currencies and U.S. dollars have fluctuated significantly over the last few years and may do so in the future. A substantial portion of our revenue and costs are denominated in or effectively indexed to U.S. dollars, and we also have significant revenues and costs in Brazilian reais, Chinese yuan, euros, and British pounds sterling. We do not currently engage in hedging activities intended to limit exposure to foreign currency transaction or translation risk.

As of December 31, 2020, a 10% change in the exchange rate would have the following revenue impacts relative to the U.S. dollar: (1) a \$16 impact related to the Chinese yuan, (2) a \$11 impact related to the euro, and (3) a \$7 impact related to the Brazilian real.

Interest rate risk

Our indebtedness and other debt arrangements are primarily comprised of the Notes and Promissory Note (which have fixed interest rates), the Revolving Credit Facility (which borrowings have an interest rate based on EURIBOR or LIBOR), and our other ancillary facilities (including bi-lateral facilities, lines of credit, and overdraft facilities).

A one-eighth percentage point increase or decrease in the applicable interest rate for the Revolving Credit Facility (assuming the Revolving Credit Facility is fully drawn) would have an annual impact of \$0.1 on cash interest expense.

Commodity price risk and supply

Commodity risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices of commodities (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer or by factors affecting all similar financial instruments traded in the market. We are subject to commodity price risk under agreements for the supply of our raw materials. Our exposure to commodity and other price risk arises principally from the purchase of crude oil (and its derivatives), natural gas, and coal. We generally purchase commodities at spot market prices and do not use commodity financial instruments or derivatives to hedge commodity prices.

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Certain Relationships and Related Party Transactions

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Employment Agreements

From time to time, we may enter into other employment or compensation arrangements with senior management or other key employees.

Sales with Affiliates

We provide goods and services to Koch Industries Inc. subsidiaries and affiliates as well as Itochu Corporation subsidiaries and affiliates. All sales activity with the affiliates are included in "Sales to related parties" in the consolidated financial statements included elsewhere in this annual report. Sales of finished goods and services to affiliates for the years ended December 31, 2020 and 2019 were \$22 and \$44, respectively.

Promissory Note

A side letter to the Acquisition Agreement was entered into on January 31, 2019 and subsequently amended on April 26, 2019 to, among other things, allow for \$78 to be paid under the Promissory Note for the purpose of satisfying the working capital closing adjustment. The Promissory Note was amended and restated on August 30, 2019, in connection with the Taiwan Acquisition. The principal amount and interest under the Promissory Note was payable in two tranches: \$25 of principal on July 31, 2019, which The LYCRA Company satisfied, and the remaining principal amount plus all accrued but unpaid interest on July 31, 2020. Interest accrued on the unpaid principal amount of the Promissory Note outstanding from and including July 31, 2019 until payment in full of all amounts due and will be compounded and capitalized as principal on a quarterly basis (calculated daily) at an initial rate of 10%, and a reduced rate of 7.5% per annum beginning August 30, 2019 per the amended agreement.

The amount due on the Promissory Note on July 31, 2020 equaled \$57, with a failure to pay resulting in an interest step-up to a rate of 12% per annum. On July 31, 2020, The LYCRA Company and the Promissory Note lenders amended and restated the Promissory Note to, among other things, extend the maturity date to November 30, 2020 and set the interest rate at 12% per annum, which interest accrued on the unpaid principal amount outstanding from and including July 31, 2020 until payment in full of all amounts due and would be compounded and capitalized as principal on a quarterly basis (calculated daily) beginning on October 1, 2020; provided, that if The LYCRA Company paid the quarterly interest payment in full prior to the date such payment is due and payable, and compounded and capitalized as principal, then the interest rate should be 7.5% per annum.

On November 24, 2020, The LYCRA Company paid \$41 to the Promissory Note lenders, thereby reducing the outstanding balance due to \$19 (including principal and capitalized interest). The remaining balance accrued interest under the existing terms and matured on November 30, 2020. The balance was not paid at maturity and resulted in a payment default under the Promissory Note, but such payment default did not result in a cross-default under either the RCF or the Notes. The Promissory Note was ultimately repaid in full (along with accrued and unpaid interest) by January 8, 2021 (see Note 17, *Subsequent Events* within the Notes to the Consolidated Financial Statements).

Commitments

Parent, as primary obligor, and Jining Ruyi, a directly owned subsidiary of Ruyi as guarantor, have entered into a commitment letter with Issuers dated April 26, 2019, and subsequently amended August 30, 2019, related to certain fees and expenses incurred by Issuers in connection with the Acquisition. Pursuant to the commitment letter, Parent has committed to Issuers to pay or otherwise satisfy such fees and expenses, and Jining Ruyi has guaranteed to the Issuers the due and punctual payment or satisfaction of Parent's obligations.

The LYCRA Company
Certain Relationships and Related Party Transactions

(Amounts in millions of U.S. dollars)

Parent, as primary obligor, and Jining Ruyi, as guarantor, entered into a commitment letter with Issuers dated August 30, 2019 related to the consideration paid and certain fees and expenses incurred by Issuers in connection with the Taiwan Acquisition. Pursuant to the commitment letter, Parent has committed to Issuers to pay or otherwise satisfy such fees and expenses, and Jining Ruyi has guaranteed to the Issuers the due and punctual payment or satisfaction of Parent's obligations.

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2023-05-31 17:52:27 +0100

Eagle Super Global Holding B.V. and Subsidiaries

d/b/a The LYCRA Company

CONSOLIDATED FINANCIAL STATEMENTS

(Audited)

For the years ended December 31, 2020 and 2019

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Report of Independent Auditors

The Management Board of
Eagle Super Global Holding B.V.

We have audited the accompanying consolidated financial statements of Eagle Super Global Holding B.V. ("the Company"), which comprise the consolidated balance sheets as of December 31, 2020 and 2019, and the related consolidated statements of operations and comprehensive loss, shareholder's equity and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in conformity with U.S. generally accepted accounting principles; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free of material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Eagle Super Global Holding B.V. at December 31, 2020 and 2019, and the consolidated results of its operations and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

/s/ Ernst & Young LLP

Houston, Texas
March 31, 2021

The LYCRA Company
Consolidated Balance Sheets

(Amounts in millions of U.S. dollars)
(Audited)

<u>Assets</u>	<u>December 31, 2020</u>	<u>December 31, 2019</u>
Current assets:		
Cash and cash equivalents	\$ 117	\$ 87
Restricted cash	1	1
Receivables, net	144	146
Inventories, net	136	205
Prepaid expenses and other current assets	17	11
Total current assets	415	450
Property, plant and equipment, net	378	433
Goodwill	953	962
Other intangible assets, net	496	508
Investments in equity affiliates	134	133
Other assets	24	23
Total assets	\$ 2,400	\$ 2,509
<u>Liabilities and Shareholder's Equity</u>		
Current liabilities:		
Current debt	\$ 39	\$ 75
Payables	113	133
Accrued and other current liabilities	74	67
Total current liabilities	226	275
Long-term debt, net	965	934
Pension and other post-retirement benefit liabilities	14	18
Other liabilities	21	17
Deferred income tax liabilities	43	48
Total liabilities	\$ 1,269	\$ 1,292
Shareholder's equity:		
Shareholder's equity	\$ 1,013	\$ 1,136
Accumulated other comprehensive income (loss)	20	(10)
Total The LYCRA Company shareholder's equity	1,033	1,126
Noncontrolling interest	98	91
Total shareholder's equity	1,131	1,217
Total liabilities and shareholder's equity	\$ 2,400	\$ 2,509

See accompanying notes to the consolidated financial statements.

The LYCRA Company
Consolidated Statements of Operations and Comprehensive Loss

(Amounts in millions of U.S. dollars)
(Audited)

	Year ended December 31,	
	2020	2019
Net sales	\$ 863	\$ 891
Sales to related parties	22	40
Total sales	885	931
Royalty and licensing income, net	2	3
Total revenue	887	934
Cost of goods sold and other operating expenses	689	775
Gross profit	198	159
Selling, general and administrative expenses	113	125
Research and development expenses	27	28
Restructuring expenses	18	6
Goodwill impairment	-	179
Impairment of long-lived assets	9	-
Transaction related costs	1	14
Other expense, net	38	4
Operating (loss)	(8)	(197)
Equity in (income) of affiliates	(6)	(7)
Pension non-service cost (income)	16	(5)
Interest expense, net	82	75
(Loss) before income taxes	(100)	(260)
Income tax expense	21	8
Consolidated net (loss)	(121)	(268)
Net (income) loss attributable to noncontrolling interest	(7)	3
Net (loss) attributable to The LYCRA Company	\$ (128)	\$ (265)
Consolidated net (loss)	\$ (121)	\$ (268)
Other comprehensive income (loss), net of tax		
Recognition of actuarial gains (losses)	14	(10)
Foreign currency translation adjustment	16	-
Comprehensive (loss)	(91)	(278)
Net (income) loss attributable to noncontrolling interest	(7)	3
Comprehensive (loss) attributable to The LYCRA Company	\$ (98)	\$ (275)

See accompanying notes to the consolidated financial statements.

The LYCRA Company
Consolidated Statement of Shareholder's Equity
(Amounts in millions of U.S. dollars)
(Audited)

The LYCRA Company Shareholder's Equity						
	Retained deficit	Additional paid in capital	Accumulated other comprehensive income	Total The LYCRA Company shareholder's equity	Noncontrolling interest	Total equity
Balances at December 31, 2018	\$ (74)	\$ 24	\$ -	\$ (50)	\$ -	\$ (50)
Consolidated net (loss)	(265)	-	-	(265)	(3)	(268)
Shareholder's deemed dividend	(6)	-	-	(6)	-	(6)
Dividends paid to noncontrolling interest	-	-	-	-	(6)	(6)
Contributed cash	-	1,438	-	1,438	100	1,538
Deemed contributions	-	16	-	16	-	16
Share-based compensation	-	3	-	3	-	3
Other comprehensive (loss)	-	-	(10)	(10)	-	(10)
Balances at December 31, 2019	\$ (345)	\$ 1,481	\$ (10)	\$ 1,126	\$ 91	\$ 1,217
Consolidated net (loss)	(128)	-	-	(128)	7	(121)
Share-based compensation	-	5	-	5	-	5
Other comprehensive income	-	-	30	30	-	30
Balances at December 31, 2020	\$ (473)	\$ 1,486	\$ 20	\$ 1,033	\$ 98	\$ 1,131

See accompanying notes to the consolidated financial statements.

The LYCRA Company
Consolidated Statements of Cash Flows

(Amounts in millions of U.S. dollars)
(Audited)

	Year ended December 31,	
	2020	2019
Cash flows from operating activities:		
Consolidated net (loss)	\$ (121)	\$ (266)
Adjustments to reconcile consolidated net (loss) to net cash provided by operating activities:		
Depreciation and amortization	71	63
Amortization of bank financing costs	7	6
Share-based compensation	5	3
Undistributed (earnings) from investment in equity affiliates	(6)	(7)
Impairment of goodwill	-	179
Interest on Promissory Note	-	2
Impairment of long-lived assets	9	-
Abandonment of long-lived assets	3	-
Deferred income taxes	-	(13)
Pension expense, net of contributions	12	(2)
Return on investment from equity affiliates	6	8
Changes in assets and liabilities: ⁽¹⁾		
Receivables	2	42
Inventories	69	95
Other assets	(4)	(3)
Payables	17	(13)
Other liabilities	16	(1)
Net cash provided by operating activities	<u>86</u>	<u>93</u>
Cash flows from investing activities:		
Acquisitions, net of cash acquired	-	(2,327)
Capital expenditures	(7)	(15)
Net cash (used in) investing activities	<u>(7)</u>	<u>(2,342)</u>
Cash flows from financing activities:		
Borrowings of revolvers	77	66
Repayments of revolvers	(77)	(46)
Payments of short-term debt	(35)	(25)
Payments on Taiwan Acquisition related party payable	(10)	(5)
Payment of deferred financing costs	(4)	(26)
Dividends paid to noncontrolling interest	-	(6)
Deemed dividend to parent company	-	(6)
Contribution of capital	-	1,438
Net cash provided by (used in) financing activities	<u>(49)</u>	<u>1,390</u>
Net increase (decrease) in cash and cash equivalents and restricted cash	30	(859)
Cash and cash equivalents and restricted cash at beginning of period	88	947
Cash and cash equivalents and restricted cash at end of period	<u>\$ 118</u>	<u>\$ 88</u>
⁽¹⁾ Net of effect of translation		
Supplemental cash flow information		
Taxes paid	\$ 25	\$ 21
Interest paid	\$ 75	\$ 68
Non-cash financing activities:		
Promissory Note for Acquisition	\$ -	\$ 78
Related party payable for Taiwan Acquisition	\$ -	\$ 15

See accompanying notes to the consolidated financial statements.

The LYCRA Company

Notes to Consolidated Financial Statements

(Amounts in millions of U.S. dollars)
(Audited)

1. Description of business and basis of presentation

Description of business

Eagle Super Global Holding B.V. ("Eagle Super") is a private holding company with limited liability incorporated under the laws of the Netherlands, wholly owned by Eagle Ultimate Global Holding B.V., a Dutch holding company which is controlled by Shandong Ruyi Technology Group Co., Ltd ("Shandong Ruyi").

On January 31, 2019, pursuant to a sale and purchase agreement with, among others, INVISTA Equities, LLC ("INVISTA"), subsidiaries of Eagle Super completed the purchase (the "Acquisition") of the entire issued share capital and limited liability company interests of Arteva Global Holdings B.V. and A&AT LLC. Post-Acquisition, Eagle Super and subsidiaries are collectively known as The LYCRA Company.

On August 30, 2019, pursuant to a sale and purchase agreement with, among others, INVISTA, The LYCRA Company completed the purchase (the "Taiwan Acquisition") of the entire issued share capital of INVISTA (Taiwan) Limited, including its interests in Shinpont Industry Inc., the Taiwanese joint venture (collectively the "Taiwan Entities").

The LYCRA Company innovates and produces fiber and technology solutions for the apparel and personal care industries, as well as specialty chemicals used in the spandex and polyurethane value chains. Headquartered in Wilmington, Delaware, The LYCRA Company is recognized worldwide for its innovative products, technical expertise, and unmatched marketing support. The LYCRA Company owns leading consumer and trade brands: LYCRA[®], LYCRA HyFit[®], LYCRA[®] T400[®], COOLMAX[®], THERMOLITE[®], ELASPAN[®], SUPPLEX[®], and TACTEL[®]. The LYCRA Company's legacy stretches back to 1958 with the invention of the original spandex yarn, LYCRA[®] fiber. Today, The LYCRA Company is focused on adding value to its customers' products by developing unique innovations designed to meet the consumer's need for comfort and lasting performance.

The LYCRA Company produces apparel fibers at six facilities worldwide. These facilities are located in North America, Europe, Asia, and South America. In addition, The LYCRA Company has several fiber processing operations in various locations around the world.

On June 30, 2020, The LYCRA Company announced its decision to close its polyurethane intermediates facility in La Porte, Texas by the end of 2020 and exit the supply of PTMEG and BDO, sold using the TERATHANE[®] product line. The decision followed a strategic review of the business and was based on market over-supply and related pricing pressures, especially on its key output material, PTMEG, and the desire to align resources and capabilities with future growth opportunities within its core LYCRA[®] fiber brands.

Principles of consolidation

The consolidated financial statements include the financial statements of The LYCRA Company and subsidiaries in which a controlling interest is maintained. For controlled subsidiaries in which ownership is less than 100%, the outside investor's interests are reported as a noncontrolling interest. The equity method is used to account for entities that The LYCRA Company owns 50% or less and in which The LYCRA Company exercises significant influence. All intercompany balances and transactions are eliminated in consolidation. Sales to and purchases from entities accounted for using the equity method are reported at a gross amount. The LYCRA Company ownership portion of intercompany profit remaining in inventory at period end is eliminated.

Basis of presentation

The accompanying consolidated financial statements have been prepared on the basis of United States generally accepted accounting principles ("U.S. GAAP"). The preparation of these financial statements

The LYCRA Company
Notes to Consolidated Financial Statements

(Amounts in millions of U.S. dollars)
(Audited)

requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosed amounts of contingent assets and liabilities, and the reported amounts of revenues and expenses. If the underlying estimates and assumptions change in future periods, actual amounts may differ from those included in the accompanying consolidated financial statements.

Certain prior year amounts within the Consolidated Statement of Cash Flows have been reclassified for consistency with current year presentation. These reclassifications have no impact on the reported results of operations.

2. Summary of significant accounting policies and practices

Cash and cash equivalents

Cash equivalents consist of highly liquid investments that are readily convertible into cash with original maturities of three months or less. Cash equivalents consist primarily of money market funds and other investments.

Restricted cash

Restricted cash consists of funds that are contractually restricted as to usage or withdrawal.

Allowance for doubtful accounts

The LYCRA Company routinely assesses the allowance for doubtful accounts by analyzing each customer's outstanding balance, credit quality, tenor, and/or customer-specific knowledge. Based on this analysis and payment negotiations, a risk grade and resulting allowance percentage is assigned to each customer. When The LYCRA Company ultimately concludes that a receivable is uncollectible, the balance is charged against the allowance for doubtful accounts, resulting in receivables that are stated at net realizable value.

Bank draft discounting with recourse

Bank acceptance drafts discounted with recourse in China are presented within receivables, net of the amount still subject to recourse.

Inventories

Inventories are stated at lower of cost or net realizable value. The LYCRA Company provides a reserve for inventory when indicators, such as declining product demand, decreased price levels, obsolescence, physical deterioration, or other economic factors are present that indicate that net realizable value is less than cost. Cost is determined primarily using the weighted-average cost method.

The allocation of fixed production overheads to inventories is based on the normal capacity of the production facilities.

Financial instruments

The LYCRA Company's financial instruments, which are carried at cost, including trade and non-trade accounts receivable, related party receivables, trade accounts payable, bank draft discounting with recourse, and other current liabilities, approximate fair value because of their short maturities. The LYCRA Company's long-term debt is also a financial instrument whose fair value is determined using quoted prices in active markets.

Fair value measurements

U.S. GAAP utilizes a three-level hierarchy to determine fair value of assets and liabilities based upon whether the inputs utilized to derive the valuation are observable or unobservable. Level 1 inputs are those determined based upon quoted prices in active markets for identical assets. Level 2 inputs generally include observable, market-based information derived from independent sources. Level 3 inputs are unobservable and include management estimates, pricing models, discounted cash flow analysis, and other techniques

The LYCRA Company
Notes to Consolidated Financial Statements

*(Amounts in millions of U.S. dollars)
(Audited)*

that reflect the entity's own assumptions about the assumptions market participants would use in pricing the asset or liability.

Long-lived assets

Property, plant and equipment

Property, plant and equipment are stated at cost. Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets. Leasehold improvements are amortized on a straight-line basis over the shorter of the lease term or the estimated useful life of the asset.

Depreciation of property, plant and equipment is based on the following estimated useful lives:

Buildings, plants and improvements	2 to 45 years
Machinery and equipment	3 to 20 years
Furniture, fixtures and other	2 to 15 years

Expenditures for maintenance and repairs are charged against expense; major replacements, renewals, and significant improvements that extend the useful life of the assets are capitalized and depreciated over the useful life of the asset. Gains and losses recognized on assets disposed are included in "Other expense, net" in the Consolidated Statements of Operations and Comprehensive Loss.

Impairments of long-lived assets held for use

Long-lived assets used in operations are tested for possible impairment when events or changes in circumstances indicate a potential significant deterioration in future cash flows projected to be generated by an asset or asset group, as applicable (hereinafter referred to as "asset"). If indicators of impairment are present and the sum of the projected undiscounted cash flows expected to result from the use and eventual disposition of the asset is less than the carrying value of an asset, the carrying value is written down to estimated fair value. The fair values of long-lived assets are determined utilizing inputs such as the present value of projected future cash flows using discount rates commensurate with the risks involved in the asset. Discounted cash flow analysis is based upon estimates management believes a market participant would utilize relating to, but not limited to, short and long-term forecasts of the reporting unit's operations, supply and demand levels, pricing dynamics between commodity and differentiated products, industry trends, utilization rates of The LYCRA Company's assets, general macroeconomic conditions, and cost of capital. For the market approach, market indicators such as comparable company analysis and active marketplace transactions, if available, are utilized. Given the unobservable nature of these inputs in the marketplace, they are considered to be Level 3 inputs in the fair value hierarchy. Actual future results could be materially different from The LYCRA Company's projections. Should an impairment of assets arise, The LYCRA Company would be required to record a charge to operations that could be material to the period reported.

Asset retirement obligations

The LYCRA Company has operations where regulations or contracts would require it to perform certain retirement activities conditional upon the shutdown of the operations and/or abandonment of the facilities. These activities may include the dismantling of facilities and removing certain hazardous materials or contaminants from the physical location. When sufficient information exists to determine a reasonable date or range of dates for an asset retirement, The LYCRA Company will estimate the cost of retirement activities and record the present value of the expected liability. The changes in the liability due to passage of time are measured by applying an interest rate to the liability balance. This amount is recognized as an increase

The LYCRA Company

Notes to Consolidated Financial Statements

(Amounts in millions of U.S. dollars)
(Audited)

in the carrying amount of the liability and as a corresponding accretion expense. The obligation is initially measured at fair value using expected present value techniques. Over time the liabilities are accreted for the change in their present value. The asset retirement obligation liability was \$18 and \$14 at December 31, 2020 and 2019, respectively.

Goodwill

Goodwill represents the excess of costs over fair value of net assets of a business acquired. For purposes of these consolidated financial statements, goodwill has been reflected in the Consolidated Balance Sheets in conjunction with the Acquisition and the Taiwan Acquisition. Goodwill is not amortized but is tested for impairment at least annually. The LYCRA Company performs the impairment test at the reporting unit level in the fourth quarter of every year. Additional assessments may be performed if events or circumstances arise which indicate that, more likely than not, the carrying value of the goodwill has been impaired.

The U.S. GAAP guidance for testing goodwill for impairment gives companies the option to first perform a qualitative assessment to determine whether it is more likely than not (a likelihood of more than 50%) that the fair value of a reporting unit is less than its carrying value. If a company concludes that this is the case, it must perform the quantitative test. Otherwise, a quantitative test is not required. The guidance requires companies to evaluate all events and circumstances, positive and negative, in assessing whether it is more likely than not that a reporting unit's fair value is less than its carrying value. Such events and circumstances include macroeconomic conditions, industry and market considerations, cost factors, overall financial performance, other relevant company-specific events such as changes in management, strategy or customers and litigation, and reporting unit-specific changes.

The quantitative testing of goodwill for impairment involves comparing the fair value of a reporting unit with its carrying amount. An impairment charge would be recognized for the amount by which the carrying amount exceeds the reporting unit's fair value up to the total amount of goodwill for the reporting unit.

Testing goodwill for impairment, whether using a qualitative or quantitative approach, involves significant management judgment. Under the qualitative approach, relevant events and circumstances and their significance must be evaluated by management with regards to their impact on the assessment of the likelihood that the fair value of a reporting unit is less than its carrying value. Under the quantitative approach, The LYCRA Company estimates the fair value of the reporting units utilizing income and market approaches. For the income approach, discounted cash flows are utilized. Discounted cash flow analysis is based upon estimates management believes a market participant would utilize relating to, but not limited to: short and long-term forecasts of the reporting unit's operations, supply and demand levels, pricing dynamics between commodity and differentiated products, industry trends, utilization rates of The LYCRA Company's assets, general macroeconomic conditions, and cost of capital. For the market approach, market indicators such as comparable company analysis and active marketplace transactions, if available, are utilized. If any of the assumptions utilized in the estimation of fair value change adversely, the resulting decline in estimated fair value could result in a material impairment charge in a future period. Given the unobservable nature of these inputs, they are considered to be Level 3 inputs in the fair value hierarchy.

Other intangible assets

Intangible assets with estimable useful lives are amortized, on a straight-line basis, over their respective estimated useful lives to their estimated residual values, if any, and are reviewed for impairment consistent with the approach to long-lived assets. Intangible assets with indefinite useful lives are not amortized, but instead are tested for impairment at least annually. Additional assessments may be performed if events or circumstances arise which indicate that, more likely than not, the carrying value of the intangible assets has been impaired.

The LYCRA Company

Notes to Consolidated Financial Statements

(Amounts in millions of U.S. dollars)
(Audited)

The guidance for testing indefinite-lived intangible assets gives companies the option to first perform a qualitative assessment to determine whether it is more likely than not (a likelihood of more than 50%) that the fair value of an intangible asset is less than its carrying value. The guidance requires companies to evaluate all events and circumstances, positive and negative, in assessing whether it is more likely than not that an intangible asset's fair value is less than its carrying value. Such events and circumstances include macroeconomic conditions, industry and market considerations, cost factors, overall financial performance, other relevant company-specific events such as changes in management, strategy or customers and litigation, and asset-specific changes. If The LYCRA Company concludes that it is more likely than not that the fair value exceeds the carrying value, no additional testing is required. However, if The LYCRA Company concludes it is more likely than not that the fair value is less than the carrying value, it must perform a quantitative test. Under the quantitative test, The LYCRA Company estimates the fair value of the trade name portfolio using the relief from royalty method. Significant assumptions required for this method are revenue growth rates, the selected royalty rates, and discount rates. The LYCRA Company estimates the fair value of in-process research and development intangible assets using the multi-period excess earnings method. Significant assumptions required for this method are revenue growth rates, attribution of the technology to the revenue stream over time, contributory asset charges, and discount rates. If the result of the quantitative test is that the fair market value is less than the carrying value, an impairment loss is recorded. If any of the assumptions utilized in the estimation of fair value change adversely, the resulting decline in estimated fair value could result in a material impairment charge in a future period. Given the unobservable nature of these inputs, they are considered to be Level 3 inputs in the fair value hierarchy.

In-process research and development intangible assets will remain indefinite-lived assets until their completion or abandonment. Once the research and development efforts are completed, The LYCRA Company will determine the useful life of the assets and perform an impairment test immediately prior to the change in classification to finite-lived. If the research and development efforts are abandoned prior to being completed, the asset will be written off to expense in the period of abandonment.

Impairment of equity affiliates

The LYCRA Company evaluates its investments for impairments when events or changes in circumstances indicate that the carrying value of such investments may have experienced an other-than-temporary decline in value. When evidence of loss in value has occurred, The LYCRA Company compares its estimate of the fair value of the investment to the carrying value of the investment to determine whether an impairment has occurred. If the estimated fair value is less than the carrying value and the decline in value is determined to be other-than-temporary, the excess of the carrying value over the fair value is recognized in the consolidated financial statements as an impairment charge.

Restructuring

The LYCRA Company recognizes liabilities related to employee termination benefits and other costs to exit an activity initially at fair value in the period in which they are incurred. Restructuring balances are recorded at fair value utilizing unobservable inputs that have been determined to be Level 3 inputs in the fair value hierarchy. Termination benefits requiring services to be rendered beyond a minimum retention period are measured initially at the communication date based on the fair value of the liability as of the termination date. These benefits are recognized ratably over the future service period.

Pension and other post-retirement plans

The funded status of each of the pension and other post-retirement benefit plans is recognized separately in the Consolidated Balance Sheets as either an asset or liability. The funded status is the difference between the fair value of plan assets and the plan's benefit obligation. The LYCRA Company's pension and other post-retirement benefit plan costs and obligations are dependent on various actuarial assumptions, including but not limited to, rate of return on plan assets, the rate at which future obligations are discounted

The LYCRA Company

Notes to Consolidated Financial Statements

(Amounts in millions of U.S. dollars)
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to value the liability (discount rate), the rate of compensation increases, and health care cost trend rates. The LYCRA Company makes assumptions relating to discount rates, rates of compensation increases, expected returns on plan assets, and health care cost trend rates at each December 31 balance sheet date. Refer to Note 11 "Pension and other post-retirement benefit liabilities" for further information on these assumptions. Plan assets are classified as either Level 1, 2, or 3 in the fair value hierarchy or by their net asset value (NAV) based upon the specific characteristics of the underlying investments in each plan.

Unrecognized actuarial gains and losses and unrecognized prior service costs and credits are deferred and recorded in "Accumulated other comprehensive loss" in the Consolidated Balance Sheets. Unrecognized actuarial gains and losses in excess of 10% of the greater of the benefit obligation or the market-related value of plan assets are amortized over the participants' average remaining future years of service.

The expected return on plan assets component of net periodic benefit cost (credit) is calculated using the market-related value of plan assets. For The LYCRA Company pension plans, the market-related value of plan assets is equal to the fair value of plan assets adjusted to reflect the amortization of gains or losses associated with the difference between the expected and actual return on plan assets over a 5-year period. Additionally, the market-related value of assets may be no more than 110% or less than 90% of the fair value of plan assets at the beginning of the year.

Share-based compensation

Share-based compensation consists of Share Appreciation Rights ("SAR"). SAR are equity-classified and measured at the fair value at grant dates. SAR expense is recognized using the straight-line attribution method over the requisite service period for each separately vesting portion of the award.

Contingencies

Liabilities for loss contingencies arising from claims, assessments, litigation, fines and penalties, and other sources are recorded when it is probable that a liability has been incurred and the amount of the assessment and/or remediation can be reasonably estimated.

Environmental expenditures that extend the life, increase the capacity, or improve the safety or efficiency of The LYCRA Company's property are capitalized. Additionally, expenditures which mitigate or prevent environmental contamination that has yet to occur are capitalized. Such liabilities are recorded on an undiscounted basis when assessments or claims are probable, and the costs can be reasonably estimated, which is generally no later than completion of the remedial feasibility study.

Foreign currency

For all of its operations, except in China, The LYCRA Company considers the U.S. dollar to be its functional currency. For operations where the U.S. dollar is the functional currency, foreign-currency-denominated monetary assets and liabilities are remeasured into U.S. dollars at the end-of-period exchange rates. The LYCRA Company's monetary exposures primarily include balances denominated in euros, Brazilian reais, Chinese yuan, and Mexican pesos. Foreign-currency-denominated nonmonetary assets, such as inventories, prepaid expenses, property, plant and equipment, and intangible assets are remeasured in U.S. dollars at historical exchange rates. Foreign-currency-denominated income and expense elements are remeasured into U.S. dollars at a rate that approximates the average exchange rate in effect during the reporting period, except for income or expenses related to nonmonetary assets, which are remeasured at historical exchange rates. Exchange gains and losses from the remeasurement of foreign-currency-denominated monetary assets and liabilities are included in "Other expense, net" in the Consolidated Statements of Operations and Comprehensive Loss. Net exchange losses were \$(35) for the year ended December 31, 2020 and net exchange gains were \$4 for the year ended December 31, 2019.

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For operations where the local currency is determined to be the functional currency, assets and liabilities are translated at the rates of exchange at the balance sheet date. Income and expense items are translated at a rate that approximates the average exchange rate in effect during the reporting period. The resulting translation adjustments are included in "Accumulated other comprehensive loss" in the Consolidated Balance Sheets and in "Foreign currency translation adjustment" in the Consolidated Statements of Operations and Comprehensive loss.

Exchange rates between the currencies noted above and the U.S. dollar have experienced significant volatility during the periods presented and may continue to do so in the future.

Revenue recognition

The FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606) in May 2014 ("ASC 606"). This ASU is a comprehensive new revenue model that requires a company to recognize revenue to depict the transfer of goods or services to a customer at an amount that reflects the consideration it expects to receive in exchange for those goods and services. Effective January 31, 2019, The LYCRA Company adopted the new revenue standard, ASC 606, and all the related amendments under the modified retrospective approach. ASC 606 requires that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Adoption of this standard did not result in significant changes to The LYCRA Company's accounting policies, business processes, systems, or controls, or have a material impact on its financial position, consolidated net income, and cash flows.

Revenue from product sales

The LYCRA Company's key source of revenue is from customer contracts for product sales. A written and binding contract with a customer is determined by the standard agreement ("Supply or Distribution Agreement") as well as the executed purchase order. The performance obligation for all products is fulfilled by the delivery of the ordered products, which are shipped to distributors and product manufacturers ("customers") in accordance with a Supply or Distribution Agreement and the purchase order. Revenues from product sales are primarily on a spot-sales basis. Product is sold to the customer based on a transaction price determined from pricing tables that vary by customer, type, or region. Payment terms vary depending on the requirements within the region, which ranges between 30 days to 180 days.

The following describes the principal activities by key revenue sources from which The LYCRA Company generates revenue, and related application of ASC 606 on these revenue streams.

The LYCRA Company recognizes revenue from a product sale when or as it satisfies a performance obligation with a customer in an amount that reflects the consideration to which The LYCRA Company expects to be entitled in exchange for the transferred goods. A performance obligation is satisfied at the point in time when or as the ordered product is delivered and transferred to the customer and the customer obtains and assumes control of such product. The LYCRA Company measures revenue as the amount of consideration it expects to receive in exchange for providing those goods and services. Except for general product warranty, The LYCRA Company does not provide any warranties to its customers. The LYCRA Company's contracts with customers do not include any material rights.

When determining transaction price, The LYCRA Company considers the effects of sales deductions such as sale incentives or rebates, claims, and discounts. The LYCRA Company does not offer retroactive discounts, other sales deductions, or refunds to a customer's claim which would require The LYCRA Company to estimate at contract inception.

- Rebates are offered to certain customers as incentives to drive sales activities. The LYCRA Company offers two types of rebate programs, namely direct and indirect rebate programs. Direct rebate

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programs run for approximately twelve months and provide price incentives to direct product customers based on the product and pricing incentives that are agreed with at inception of the contract. Indirect rebate programs are established with end-use garment companies and are designed to provide incentives to incorporate The LYCRA Company's products in to their garment manufacturing. Accruals for customer rebates are estimated using the expected value method based on the agreed terms of the rebate programs, the projected sales targets, and historical trends, and are accounted for as a reduction to gross sales. Rebate claims deducted from gross sales amounts were \$7 and \$9 for the years ended December 31, 2020 and 2019, respectively.

- Customer claims may arise for various reasons including products not conforming to specifications. The customer has 10 to 60 days to file a claim and request either a product replacement or refund. The LYCRA Company accrues for customer claims when the actual claim is filed by the customer and the claims are reviewed and approved. Customer claims that were deducted from gross revenues are immaterial for the years ended December 31, 2020 and 2019.
- Other sales deductions include customer claims and volume discounts. Once a claim is filed by the customer, the claim is reviewed and approved and an accrual is made as a reduction to "Net sales" with a corresponding credit to "Other accrued liabilities". The deduction to "Net sales" arising from customers claims and discounts amounted to \$1 and \$4 for the years ended December 31, 2020 and 2019, respectively.

Certain revenues, including those derived from financial instruments, are not within the scope of ASC 606 because they are not from contracts with customers. Such revenues are accounted for in accordance with other U.S. GAAP standards. Revenue-related taxes collected on behalf of customers and remitted to taxing authorities, principally sales taxes, are not included in revenues. Also, The LYCRA Company has elected to apply certain practical expedients such as: a) the portfolio approach in evaluating groups of contracts with customers with similar characteristics, b) expensing the costs to obtain contracts when incurred for contracts that have a term less than one year, as well as the effects of financing components for contracts where the timing difference between the sale of products and the collection of the consideration is less than one year, and c) accounting for shipping and handling costs after the customer has taken control of goods as fulfillment activities. The LYCRA Company has elected to recognize the incremental costs of obtaining a contract as an expense when incurred if the amortization period of the asset that the entity otherwise would have recognized is one year or less. Further, The LYCRA Company identified no costs to obtain and fulfill contracts that have durations longer than one year and need to be capitalized as an asset. Incremental costs to obtain a contract are \$3 and \$3 for the years ended December 31, 2020 and 2019, respectively, and are recorded in "Cost of goods sold and other operating expenses" in the Consolidated Statements of Operations and Comprehensive Loss.

Shipping and handling costs

Shipping and handling costs associated with outbound freight are recorded in "Cost of goods sold and other operating expenses" in the Consolidated Statements of Operations and Comprehensive Loss.

Advertising costs

Advertising costs of \$10 and \$18 for the years ended December 31, 2020 and 2019, respectively, are expensed as incurred and are recorded in "Selling, general and administrative expenses" in the Consolidated Statements of Operations and Comprehensive Loss.

Research and development

Research and development costs are expensed as incurred and were \$27 and \$28 for the years ended December 31, 2020 and 2019, respectively.

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Income taxes

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

The LYCRA Company is subject to income taxation in many jurisdictions around the world. Unrecognized tax benefits (or tax contingency reserves) reflect the difference between positions taken or expected to be taken on income tax returns and the amounts recognized in the financial statements. Resolution of the related tax positions through negotiations with the relevant tax authorities, litigation, or by the passage of time often takes many years to complete. The timing of resolution on individual tax positions is difficult to predict since such timing is not within the control of The LYCRA Company. The LYCRA Company's accounting policy is to record tax benefits only when the benefit is more likely than not of being sustained during an income tax audit and to record a reserve equal to management's best estimate of the amount of the benefit that will be disallowed as a result of an income tax audit. The LYCRA Company recognizes an estimate of potential interest and penalties related to liabilities for unrecognized tax benefits in the provisions for domestic and foreign income taxes. Our policy is to record interest and penalties, if any, related to uncertain tax positions as a component of general and administrative expenses.

Risks and uncertainties

Financial instruments that potentially subject The LYCRA Company to concentrations of credit risk consist principally of trade accounts receivable. A concentration of credit risk results from a majority of customers being in the textile industry, but is mitigated by The LYCRA Company's large number of customers, their geographical dispersion, and the absence of any significant customers. Except in a few instances where the credit risk warrants it, collateral is not required on trade receivables.

At December 31, 2020, The LYCRA Company employed approximately 2,600 employees. Of these employees, 47% were represented by labor unions, with 87% of those employees' union contracts expiring within one year.

The LYCRA Company maintains insurance coverage that management considers appropriate based on analysis of risks specific to the business and the cost of benefits of related insurance coverage. The LYCRA Company purchases a portfolio of insurance policies that transfers risk above reasonable deductibles to various third-party underwriters. These policies include statutory, contractual, and discretionary liability coverages with most backed by a substantial excess liability umbrella. Property damage and business interruption insurance with retention levels reflecting management and shareholder risk tolerance is purchased for all manufacturing facilities and business support offices.

Recently issued accounting standards

Adopted accounting standards

The LYCRA Company has adopted the following guidance changes as part of the consolidated financial statements for the years ended December 31, 2020 and 2019.

In August 2018, the Financial Accounting Standards Board (FASB) issued guidance which changes the fair value measurement disclosure requirements. The guidance is effective for all entities for fiscal years

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beginning after December 15, 2019, including interim periods therein. The LYCRA Company applied this guidance in 2019 and it did not have a material impact on the consolidated financial statements.

In February 2018, the FASB issued guidance which permits companies to reclassify stranded tax effects caused by the 2017 tax reform from "Accumulated other comprehensive income" to "Retained earnings". The guidance is effective for annual reporting periods beginning after December 15, 2018. The LYCRA Company applied this guidance in 2019 and it did not have a material impact on the consolidated financial statements.

In February 2017, the FASB issued guidance to improve the usefulness of the information reported to users of employee benefit plan financial statements and to provide clarity to preparers and auditors. This guidance relates primarily to the reporting by an employee benefit plan for its interest in a master trust. The guidance is effective for annual reporting periods beginning after December 15, 2018. The LYCRA Company applied this guidance in 2019 and it did not have a material impact on the consolidated financial statements.

In January 2017, the FASB issued guidance to simplify the subsequent measurement of goodwill. This guidance eliminated Step 2 from the goodwill impairment test. In computing the implied fair value of goodwill under Step 2, an entity had to perform procedures to determine the fair value at the impairment testing date of its assets and liabilities (including unrecognized assets and liabilities) following the procedure that would be required in determining the fair value of assets acquired and liabilities assumed in a business combination. Instead, under this guidance, an entity should perform its annual or interim goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. The guidance should be adopted before the annual or any interim goodwill impairment test in fiscal years beginning after December 15, 2021. The LYCRA Company elected to early adopt this guidance effective January 1, 2019. Refer to Note 7 "Goodwill and other intangible assets, net" for the impact on the consolidated financial statements.

In January 2017, the FASB issued guidance clarifying the definition of a business, which amends current guidance by clarifying certain requirements to be considered a business. The amendments provided a framework to assist entities in evaluating whether such requirements have been met. The guidance is effective for annual reporting periods beginning after December 15, 2018. The LYCRA Company applied this guidance in 2019 and it did not have a material impact on the consolidated financial statements.

In August 2016, the FASB issued guidance to provide clarification on eight specific cash flow issues on which current U.S. GAAP is either unclear or does not include specific guidance. These eight specific cash flow issues cover: (1) debt prepayment or debt extinguishment costs, (2) settlement of zero-coupon debt instruments or other debt instruments with coupon interest rates that are insignificant in relation to the effective interest rate of the borrowing, (3) contingent consideration payments made after a business combination, (4) proceeds from the settlement of insurance claims, (5) proceeds from the settlement of corporate-owned life insurance policies, including bank-owned life insurance policies, (6) distributions received from equity method investees, (7) beneficial interests in securitization transactions, and (8) separately identifiable cash flows and application of the predominance principle. The guidance is effective for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019. The LYCRA Company applied this guidance in 2019 and it did not have a material impact on the consolidated financial statements.

In January 2016, the FASB issued guidance which enacts targeted improvements to the reporting model for financial instruments to provide users of financial statements with more decision-useful information. The guidance is effective for annual reporting periods beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019. The LYCRA Company adopted this guidance in 2019 and it did not have a material impact on the consolidated financial statements.

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Accounting standards not yet adopted

The LYCRA Company is evaluating any potential implications of the following proposed guidance changes and has not yet adopted these standards as of December 31, 2020.

In December 2019, the FASB issued guidance which removes certain exceptions to the general principles within ASC 740, Income Taxes ("ASC 740"), and improves consistent application of and simplifies U.S. GAAP for other areas of ASC 740 by clarifying and amending existing guidance. The guidance is effective for fiscal years beginning after December 15, 2021, with early adoption permitted.

In August 2018, the FASB issued guidance which amends the current guidance to add, remove, and clarify disclosure requirements related to defined benefit pension and other post-retirement plans. The guidance changes related to disclosures are part of the FASB's disclosure framework project. The guidance is effective for annual reporting periods beginning after December 15, 2021. Early adoption is permitted.

In June 2016, the FASB issued guidance to provide more decision-useful information about the expected credit losses on financial instruments and other commitments to extend credit held by reporting entities. The guidance replaces the incurred loss impairment methodology in current U.S. GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. The guidance is effective for annual reporting periods beginning after December 15, 2022, including interim periods therein.

In February 2016, the FASB issued guidance to increase transparency and comparability on leases. A lessee will recognize assets and liabilities for leases with a lease term of more than 12 months. The guidance is effective for annual reporting periods beginning after December 15, 2021. The LYCRA Company expects to early adopt the new guidance on leases effective for the year ending December 31, 2021, and is currently assessing the impacts to its consolidated financial statements.

3. Acquisitions

The Acquisition

Eagle Super completed the Acquisition on January 31, 2019 for \$2,356 in cash and a promissory note for \$78. The cash for the Acquisition was funded with the issuance of privately held notes of \$690 and €250 and an equity contribution of \$1,438 from Eagle Super's equity investors. Post-Acquisition, the consolidated company began doing business as The LYCRA Company. Headquartered in Wilmington, Delaware, The LYCRA Company manufactures advanced fiber and technology solutions for the apparel and hygiene industries. Through October 2020, The LYCRA Company also manufactured specialty chemicals used in the spandex and polyurethane value chains.

Transaction costs incurred by The LYCRA Company in connection with the Acquisition were \$1 and \$14 for the years ended December 31, 2020 and 2019, respectively. The transaction costs are included in "Transaction related costs" in the Consolidated Statements of Operations and Comprehensive Loss.

The LYCRA Company has accounted for the Acquisition using the acquisition method of accounting in accordance with the accounting guidance for business combinations. The LYCRA Company has stated assets and liabilities at the acquisition date fair value. The LYCRA Company used its best estimates and assumptions as part of the purchase price allocation process to accurately value assets acquired and liabilities assumed during the Acquisition. During 2020, The LYCRA Company identified additional measurement period adjustments and refined its estimates of fair value and adjusted the purchase price allocation accordingly.

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The following table summarizes the preliminary and final fair values of the identified assets acquired and liabilities assumed as a result of the Acquisition:

	The Acquisition⁽¹⁾		
	Estimated Fair Value as Previously Reported	Measurement Period Adjustments	Finalized Fair Value
Cash and cash equivalents	\$ 44	\$ -	\$ 44
Receivables	185	-	185
Inventories	296	-	296
Prepaid expenses and other assets	35	1	36
Property, plant and equipment	473	-	473
Intangible assets	516	-	516
Investments in equity affiliates	110	-	110
Total assets acquired	1,659	1	1,660
Payables	93	-	93
Personnel	37	-	37
Plant operating costs	10	-	10
Asset retirement obligation	13	-	13
Accrued and other liabilities	40	-	40
Pension and other post-retirement benefit liabilities	9	-	9
Deferred income tax liabilities	62	(6)	56
Total liabilities assumed	264	(6)	258
Net assets acquired	1,395	7	1,402
Fair value of noncontrolling interest	100	-	100
Goodwill	1,139	(7)	1,132
Total consideration transferred	\$ 2,434	\$ -	\$ 2,434

(1) Does not include Taiwan. Refer to page F-20 for detail on the Taiwan Acquisition.

The fair value of the assets acquired included trade receivables of \$167. The gross amount due under contracts was \$175, of which \$8 was expected to be uncollectible. Additionally, The LYCRA Company acquired \$18 of non-trade receivables, none of which was expected to be uncollectible.

The following table summarizes The LYCRA Company's final allocation of the purchase price to the identifiable intangible assets acquired as a result of the Acquisition:

	Gross Asset Amount At Acquisition Date	Weighted-Average Useful Lives
Definite-lived intangible assets		
Developed technology	\$ 69	10 years
Customer relationships	25	10 years
Favorable leases	8	66 years
	102	
Indefinite-lived intangible assets		
Trade name portfolio	390	
In-process research and development	24	
	\$ 516	

The estimated fair values for the developed technology and in-process research and development intangible assets were measured using the multi-period excess earnings method. The principle behind the multi-period excess earnings method is that the value of an intangible asset is equal to the present value of the incremental after-tax cash flows attributable to the subject intangible asset, after taking charges for the use of other assets employed by the business. Significant assumptions required for this method are revenue growth rates, attribution of the technology to the revenue streams over time, contributory asset charges, and discount rates.

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The estimated fair value for the customer relationships was measured using the distributor method. The principle behind the distributor method is that the value of an intangible asset is equal to the present value of the incremental after-tax cash flows attributable to the subject intangible asset, after taking charges for the use of other assets employed by market participant distributor businesses. Significant assumptions required for this method are revenue growth rates, customer attrition rates, market participant distributor margins, and discount rates.

The estimated fair value for the favorable leases was measured based on present value of the market rent price per square foot. Significant assumptions required for this method are the market rent growth rate, transfer of ownership and exercise of renewal options at termination of existing terms, and discount rates.

The estimated fair value for the trade name portfolio was measured using the relief from royalty method. The principle behind the relief from royalty method is that the value of an intangible asset is equal to the present value of the avoided post-tax royalties. Significant assumptions required for this method are revenue growth rates, the selected royalty rate, and discount rates.

The noncontrolling interest relates to the interests of outside investors in The LYCRA Company Singapore Pte. Ltd. The fair value of the noncontrolling interest of \$100 was estimated by applying an income approach. The fair value measurements of the noncontrolling interest was based on significant inputs not observable in the market. The fair value estimates for the noncontrolling interest include significant inputs such as the discount rate and projected cash flows for the entity.

Goodwill represents the excess of the purchase price over the estimated fair value assigned to tangible and identifiable intangible assets acquired and liabilities assumed. The goodwill is attributable to the workforce, the manufacturing synergies, and the intrinsic value of the acquired business. The goodwill is not deductible for tax purposes.

As a result of the Acquisition, a contingent liability was realized to reflect The LYCRA Company's obligation to reimburse INVISTA for any realization of the Brazilian VAT credits pursuant to the terms of the Selling and Purchase Agreement ("SPA"). Per the SPA, if The LYCRA Company receives or realizes any economic benefit after the Acquisition with respect to Brazilian VAT refunds or claims, as a utilization or deduction from or credit against taxes in Brazil, then The LYCRA Company shall pay to INVISTA an amount in cash equal to 90% of any such benefit within five business days after monetization. The LYCRA Company recognized a contingent liability of \$14 at Acquisition.

The Taiwan Acquisition

The LYCRA Company completed the Taiwan Acquisition on August 30, 2019 for \$15 cash paid at closing, an additional payment of \$5 on October 1, 2019, and a final amount of \$10, recorded in "Payables" in the Consolidated Balance Sheets, due on January 8, 2020, which The LYCRA Company satisfied. The LYCRA Company had pre-existing relationships with the Taiwan Entities which were effectively settled by the Taiwan Acquisition. There was no gain or loss recorded on the effective settlement of the \$5 receivables. The \$(2) net working capital adjustment is the difference between the estimated acquisition date net working capital and the actual acquisition date net working capital determined post-close. The \$2 carve-out joint venture closing adjustment represents an estimated 50% of the positive accumulated and distributable earnings of Shinpont Industry Inc.

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Total purchase consideration	\$	30
Net working capital adjustment		(2)
Estimated carve-out joint venture closing adjustment		2
Settlement of pre-existing relationships		5
Total adjusted purchase consideration	\$	35

The LYCRA Company has accounted for the Taiwan Acquisition using the acquisition method of accounting in accordance with the accounting guidance for business combinations. The LYCRA Company has stated assets and liabilities at the acquisition date fair value. The LYCRA Company used its best estimates and assumptions as part of the purchase price allocation process to accurately value assets acquired and liabilities assumed during the Taiwan Acquisition. During 2020, The LYCRA Company identified additional measurement period adjustments and refined its estimates of fair value and adjusted the purchase price allocation accordingly.

The following table summarizes the preliminary and final fair values of the identified assets acquired and liabilities assumed as a result of the Taiwan Acquisition:

	Taiwan Acquisition		
	Estimated Fair Value as Previously Reported	Measurement Period Adjustments	Finalized Fair Value
Receivables	\$ 6	\$ -	\$ 6
Inventories	5	-	5
Intangible assets	1	-	1
Investments in equity affiliates	24	2	26
Total assets acquired	36	2	38
Accrued and other liabilities	2	-	2
Pension and other post-retirement benefit liabilities	1	-	1
Total liabilities assumed	3	-	3
Net assets acquired	\$ 33	\$ 2	\$ 35
Goodwill	2	(2)	-
Total consideration transferred	\$ 35	\$ -	\$ 35

The fair value of the assets acquired included trade receivables of \$6, none of which was expected to be uncollectible. The LYCRA Company did not acquire any other class of receivable as a result of the acquisition.

The fair value of the assets acquired includes customer relationships definite-lived intangible assets of \$1. The estimated fair value for the customer relationships was measured using the distributor method. The principle behind the distributor method is that the value of an intangible asset is equal to the present value of the incremental after-tax cash flows attributable to the subject intangible asset, after taking charges for the use of other assets employed by the market participant distributor businesses. Significant assumptions required for this method are revenue growth rates, customer attrition rates, market participant distributor margins, and discount rates.

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4. Receivables

	December 31, 2020	December 31, 2019
Trade accounts receivables ⁽¹⁾	\$ 127	\$ 127
Receivables, non-trade ⁽²⁾	17	14
Related party receivables ⁽³⁾	2	6
	<u>146</u>	<u>147</u>
Less: allowance for doubtful accounts	(2)	(1)
	<u>\$ 144</u>	<u>\$ 146</u>

(1) Trade accounts receivables represent ASC 606 receivables.

(2) Receivables, non-trade are primarily comprised of cash collateralization of certain surety bonds and VAT receivables, which are presented net with VAT payables in certain jurisdictions.

(3) Related party receivables represent ASC 606 receivables. Refer to Note 15 "Significant customers and related party transactions" for additional detail regarding related party receivables.

5. Inventories

	December 31, 2020	December 31, 2019
Raw materials	\$ 36	\$ 36
Work in process	10	20
Finished goods	80	138
	<u>126</u>	<u>194</u>
Supplies	15	19
	<u>141</u>	<u>213</u>
Reserves	(5)	(8)
	<u>\$ 136</u>	<u>\$ 205</u>

6. Long-lived assets

Property, plant and equipment, net

	December 31, 2020	December 31, 2019
Land	\$ 40	\$ 40
Buildings, plants and improvements	106	104
Machinery and equipment	338	330
Furniture, fixtures and other	1	3
Construction in progress	5	10
	<u>490</u>	<u>487</u>
Less: accumulated depreciation	(112)	(54)
	<u>\$ 378</u>	<u>\$ 433</u>

Depreciation expense was \$58 and \$54 for the years ended December 31, 2020 and 2019, respectively. The majority of depreciation expense is recorded in "Cost of goods sold and other operating expenses" in the Consolidated Statements of Operations and Comprehensive Loss. As a part of the steps taken to improve overall business performance by leveraging benefits of its global footprint, aligning resources and capabilities, a strategic decision was made to realign the assets in our Waynesboro, VA facility resulting in an abandonment and related asset write-down of \$3. The abandonment write-down is recorded in "Restructuring expenses" in the Consolidated Statements of Operations and Comprehensive Loss.

Long-lived asset impairment

During 2020, The LYCRA Company identified indicators of impairment related to its polyurethane intermediates facility in La Porte, Texas. Indicators, including market over-supply and related pricing pressures, led to evaluation of the La Porte facility for impairment. Undiscounted cash flows expected to

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result from the use and eventual disposition of the assets were less than the carrying amounts of the assets. As a result, the carrying amounts of the assets are deemed not recoverable.

On June 30, 2020, The LYCRA Company announced its decision to close its polyurethane intermediates facility in La Porte, Texas by the end of 2020 and exit the supply of PTMEG and BDO, which are reported as the TERATHANE® product line. As a result of this decision, The LYCRA Company recorded \$9 of long-lived asset impairment to reduce the carrying value of the property, plant, and equipment at this site to \$0. The associated asset retirement obligation for exit of the La Porte site increased by \$4 and is recorded in "Other liabilities" in the Consolidated Balance Sheets.

7. Goodwill and other intangible assets, net

The carrying value of goodwill is shown below:

	<u>Balance at</u> <u>January 31, 2019</u>	<u>Impairment</u>	<u>Balance at</u> <u>December 31, 2019</u>	<u>Measurement</u> <u>Period Adjustments</u>	<u>Balance at</u> <u>December 31, 2020</u>
Goodwill	\$ 1,141	\$ (179)	\$ 962	\$ (9)	\$ 953

The LYCRA Company performed the quantitative impairment test to compare the fair value of goodwill with its carrying value. As of December 31, 2019, The LYCRA Company concluded that a \$179 goodwill impairment was required for its Apparel reporting unit due to pricing pressures on a strengthening U.S. dollar and lower near-term branded product volumes. The fair value at December 31, 2019 was determined based on a discounted cash flow model and a market approach. Significant assumptions in the discounted cash flow model include revenue growth rates, profit margin based on operation forecasts, asset utilization, and cost of capital. A discount rate of 9.5% was utilized, representing The LYCRA Company's weighted-average cost of capital. Of the \$179 goodwill impairment, \$9 was attributable to the noncontrolling interest.

Following the strategic business decision to close its polyurethane intermediates facility in La Porte, Texas by the end of 2020 and exit the supply of PTMEG and BDO, sold within the TERATHANE® product line, The LYCRA Company reassessed its reporting units. As a result, the previous two reporting units with goodwill, Apparel and Personal Care, are now one combined reporting unit, Apparel. The annual goodwill impairment test as of December 31, 2020 resulted in fair values in excess of carrying value, therefore no impairment charge was required.

The gross carrying value and accumulated amortization in total and by major class of other intangible assets are shown below:

	<u>December 31, 2020</u>			<u>December 31, 2019</u>		
	<u>Gross</u>	<u>Accumulated</u> <u>amortization</u>	<u>Net</u>	<u>Gross</u>	<u>Accumulated</u> <u>amortization</u>	<u>Net</u>
Definite-lived intangible assets						
Developed technology ⁽¹⁾	\$ 93	\$ (16)	\$ 77	\$ 69	\$ (6)	\$ 63
Customer relationships	26	(5)	21	26	(3)	23
Favorable leases	8	-	8	8	-	8
	<u>127</u>	<u>(21)</u>	<u>106</u>	<u>103</u>	<u>(9)</u>	<u>94</u>
Indefinite-lived intangible assets						
Trade name portfolio	390	-	390	390	-	390
In-process research and development ⁽¹⁾	-	-	-	24	-	24
	<u>\$ 517</u>	<u>\$ (21)</u>	<u>\$ 496</u>	<u>\$ 517</u>	<u>\$ (9)</u>	<u>\$ 508</u>

(1) In January 2020, LYCRA® MyFit™ fiber began to be commercialized and moved from In-process research and development to Developed technology.

The expense charged to operations for amortization of intangible assets was \$12 and \$9 for the years ended December 31, 2020 and 2019, respectively, and is recorded in "Cost of goods sold and other

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operating expenses” in the Consolidated Statements of Operations and Comprehensive Loss. The estimated intangible asset amortization expense for each of the next five years is approximately \$12.

The weighted-average amortization period for acquired definite-lived intangible assets is 12 years. The amortization period by major asset class is: developed technology (10 years), customer relationships (10 years), and favorable leases (18 - 84 years).

8. Investments in equity affiliates

The LYCRA Company owns interests in unconsolidated co-investment entities in Japan, Singapore, and Taiwan. The entities, Toray Opelontex Co., Ltd.; ISH-Toray Pte. Ltd.; and Shinpont Industry Inc., are 50% owned by The LYCRA Company. The equity method is used to account for entities that The LYCRA Company owns 50% or less of which The LYCRA Company exercises significant influence. Sales to and purchases from entities accounted for using the equity method are reported at a gross amount. For controlled subsidiaries in which ownership is less than 100%, the outside investor’s interests are reported as a noncontrolling interest.

The three entities have a combined carrying value of \$134 and \$133 at December 31, 2020 and 2019, respectively.

9. Restructuring

Operating expense charges are included in “Restructuring expenses” in the Consolidated Statements of Operations and Comprehensive Loss, and restructuring balances are included in “Accrued and other current liabilities” in the Consolidated Balance Sheets.

In August 2019, The LYCRA Company began taking steps to improve overall business performance by leveraging benefits of its global footprint, aligning resources and capabilities with future growth opportunities and providing for a more efficient structure to serve existing markets. These actions resulted in a reduction in The LYCRA Company’s global workforce and the realignment of certain production capacity. The restructuring accrual related to improving overall business performance was \$0 and \$2 at December 31, 2020 and 2019, respectively.

On June 30, 2020, The LYCRA Company announced its decision to close its polyurethane intermediates facility in La Porte, Texas by the end of 2020 and exit the supply of PTMEG and BDO, which are reported as the TERATHANE® product line. The LYCRA Company’s decision followed a strategic review of the business and was based on market over-supply and related pricing pressures, especially on its key output material, PTMEG, and The LYCRA Company’s desire to align resources and capabilities with future growth opportunities within its core LYCRA® fiber brands. These actions included a reduction in The LYCRA Company’s global workforce, resulting in termination costs of \$2, asset write-down expenses of \$5, and contract obligation recognition of \$8 with the termination of raw material take or pay and lease agreements. The associated restructuring accrual for contract obligations and termination costs were \$4 and \$2, respectively, at December 31, 2020.

	Contract Obligations	Termination Costs
Balance at December 31, 2019	\$ -	\$ 2
Operating expense charge	8	2
Cash payments	(4)	(2)
Balance at December 31, 2020	<u>\$ 4</u>	<u>\$ 2</u>

As a part of steps taken to improve overall business performance by leveraging benefits of its global footprint, aligning resources and capabilities, the decision was made to realign the Waynesboro, VA produced products resulting in an asset write-down of \$3.

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10. Indebtedness

Current debt

	December 31, 2020	December 31, 2019
Promissory note ⁽¹⁾	\$ 19	\$ 55
Revolving credit facility	20	20
	<u>\$ 39</u>	<u>\$ 75</u>

(1) Refer to Note 15 "Significant customers and related party transactions" for additional detail regarding related party payables.

In May 2018, The LYCRA Company entered into a senior cash flow revolver facility agreement, the Revolving Credit Facility ("RCF"), with Barclays Bank PLC and JPMorgan Chase Bank, N.A. which became effective on the January 31, 2019 transaction completion date. The total commitments of the RCF were \$100 at December 31, 2020. Borrowings under the RCF bear interest at the matched term LIBOR index plus an applicable margin. The RCF credit agreement contains no financial covenants except for a springing maximum consolidated net leverage ratio of 5.75 to 1.00. The covenant is tested only if 25% or greater of total RCF commitments are utilized at the end of the reporting period. At December 31, 2020, The LYCRA Company was not obligated to test this ratio. The RCF will mature in November 2022. At December 31, 2020, the outstanding cash borrowings on the RCF totaled \$20.

Pursuant to terms of the RCF, The LYCRA Company is required to undertake certain actions to perfect the security interests granted in respect of the collateral securing obligations under the RCF. All such actions have been completed with respect to substantially all of the collateral required to be pledged to secure obligations under the RCF. However, due to certain regulatory requirements and delays, The LYCRA Company has not finalized the security pledges covering collateral held by certain of our subsidiaries. During fiscal 2019 and continuing into 2020, the facility agent under the RCF notified The LYCRA Company that it considers these open security issues to be defaults under the RCF. The LYCRA Company disagrees with the facility agent and maintains that all required security obligations have been progressed in accordance with the standards of performance set forth in the credit agreements. If the claimed default were pursued successfully, however, The LYCRA Company's access to the RCF could be restricted and the lenders could declare all amounts due and payable.

The LYCRA Company had outstanding bank guarantees, surety bonds, and letters of credit of \$13 and \$15 at December 31, 2020 and 2019, respectively. Of these bank guarantees, \$1 and \$2 affects the availability of the RCF at December 31, 2020 and 2019, respectively. The bank guarantees, surety bonds, and letters of credit are related to import duties, VAT taxes, insurance policies, and other contracts.

Long-term debt

Two notes were issued as part of the financing for the Acquisition. These were comprised of \$690 aggregate principal amount of 7.5% Senior Secured Notes due 2025 (the "Dollar Notes"), and €250 aggregate principal amount of 5.375% Senior Secured Notes due 2023 (the "Euro Notes" and, together with the Dollar Notes, the "Notes").

	Long-term debt	Deferred financings costs	Long-term debt, net
Balance at December 31, 2019	\$ 970	\$ (36)	\$ 934
Amortization of deferred financing costs		7	7
FX remeasurement on Euro Notes	25	(1)	24
Balance at December 31, 2020	<u>\$ 995</u>	<u>\$ (30)</u>	<u>\$ 965</u>

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Interest payments are due on May 1 and November 1 of each year. The Euro Notes and Dollar Notes are redeemable after May 1, 2020 and May 1, 2021, respectively, at The LYCRA Company's option. Early redemption is subject to various premiums depending on the timing of early redemption ranging from 1.344% to 2.688% above par for the Euro Notes and 1.875% to 5.625% above par for the Dollar Notes. At any time and from time to time, prior to May 1, 2021 the Dollar Notes may be redeemed at The LYCRA Company's option during each 12-month period commencing with the issue date of the Notes up to 10% of the aggregate principal amount outstanding at a redemption price equal to 103% of the principal amount of the Dollar Notes redeemed, plus accrued and unpaid interest; or at a redemption price equal to 100% of the principal amount thereof, plus accrued and unpaid interest and additional amounts, if any, to (but excluding) the redemption date plus a "make-whole" premium consisting of the present value of the redemption price of such Dollar Notes on May 1, 2021. The "make-whole" redemption is no longer applicable for the Euro Notes.

The credit agreements for the Notes and the RCF contain provisions around change-in-control events, including that the Notes or the RCF could be called early. The LYCRA Company received notification from a third party asserting that direct or indirect shareholders of The LYCRA Company are in default with respect to certain agreements, and such default could lead to a change-in-control event under the Notes and RCF. If such an event occurred, each noteholder would have the right but not a requirement to require The LYCRA Company to repurchase all or part of the notes at a purchase price equal to 101% of the principal amount of such notes, plus accrued and unpaid interest, and each lender under the RCF would have the right but not the requirement to withdraw from the facility and declare its outstanding participations immediately due and payable. Any such repurchase obligation or acceleration event could adversely impact our business, financial condition, or results of operations.

The LYCRA Company incurred financing costs of approximately \$48 that were directly associated with the debt issuance cost of the Notes and included in the carrying amount of the Notes and amortized over the term of the Notes using the effective interest rate method. Net deferred financing costs are presented as a direct reduction of The LYCRA Company's long-term debt in the Consolidated Balance Sheets and amount to \$30, net of FX remeasurement, at December 31, 2020. The amortization of the financing costs, which was \$7 and \$6 for the years the years ended December 31, 2020 and 2019, respectively, is presented in "Interest expense, net" in the Consolidated Statements of Operations and Comprehensive Loss.

The LYCRA Company has not elected the fair value option of its outstanding debt in the amortized cost shown on the Consolidated Balance Sheets. The fair value of the debt on December 31, 2020 is estimated at \$590 and \$263 for the Dollar Notes and Euro Notes, respectively, based on active market trading data and is thus determined under Level 1 of the fair value hierarchy.

11. Pension and other post-retirement benefit liabilities

The LYCRA Company sponsors various pension plans and other post-retirement benefit plans for its international employees. Pension benefits for non-U.S. employees are provided through several funded and unfunded international multiemployer plans with contributions of \$4 and \$3 for the years ended December 31, 2020 and 2019, respectively.

Other post-retirement benefits

Other post-retirement benefits include certain termination indemnity benefits, retiree medical, disability, and life insurance benefits. Substantially all obligations are determined actuarially using discount rates and salary trends that The LYCRA Company believes are appropriate in each country. The associated plans are unfunded, and approved claims are paid from The LYCRA Company funds.

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The following table sets forth the funded status of the defined benefit pension and post-retirement plans:

	Pension benefits		Other post-retirement	
	Non-U.S. pensions		benefits	
	2020	2019	2020	2019
Change in benefit obligation				
Benefit obligation at beginning of year	\$ 273	\$ -	\$ 3	\$ -
Service cost	1	3	-	-
Interest cost	2	6	-	-
Plan curtailments/settlements	(5)	-	-	-
Actuarial loss	(7)	37	(2)	2
Business acquisition	-	241	-	2
Benefits paid	(3)	(3)	-	(1)
FX remeasurement	(1)	(11)	(1)	-
Other ⁽¹⁾	(230)	-	1	-
Benefit obligation at end of year	<u>30</u>	<u>273</u>	<u>1</u>	<u>3</u>
Change in plan assets				
Fair value of plan assets at beginning of year	258	-	-	-
Actual return on plan assets	1	37	-	-
Employer contributions	4	3	-	1
Plan settlements	(3)	-	-	-
Business acquisition	-	231	-	-
Benefits paid	(3)	(3)	-	(1)
FX remeasurement	1	(10)	-	-
Other ⁽¹⁾	(241)	-	-	-
Fair value of plan assets at end of year	<u>17</u>	<u>258</u>	<u>-</u>	<u>-</u>
Amounts recognized in the Combined Balance Sheets				
Other assets	1	10	-	-
Accrued and other current liabilities	(1)	-	-	-
Pension and other postretirement benefit liabilities	(13)	(25)	(1)	(3)
Net liability recognized (funded status)	<u>\$ (13)</u>	<u>\$ (15)</u>	<u>\$ (1)</u>	<u>\$ (3)</u>
Amounts recognized in Accumulated other comprehensive income				
Actuarial (income)/loss	(3)	10	(1)	2
Net accumulated other comprehensive (Income)/Loss recognized	<u>\$ (3)</u>	<u>\$ 10</u>	<u>\$ (1)</u>	<u>\$ 2</u>

- (1) On March 1, 2020, Stichting Pensioenfondsvestiging INVISTA, the defined benefit plan sponsored by The LYCRA Company for employees in the Netherlands, was liquidated. All liabilities and assets of the scheme were transferred through a Dutch regulator-approved collective value transfer (CWO) to an Algemeen Pensioenfondsvestiging (APF) operated by Stap Algemeen Pensioenfondsvestiging (Stap). In December 2019, the managing board of Stichting Pensioenfondsvestiging INVISTA agreed to the CWO for accrued pension benefits and The LYCRA Company agreed to an administrative contract with Stap for future earned benefits. As a result of the liquidation and CWO, all benefit obligations \$(230), plan assets \$(241), and actuarial accumulated other comprehensive losses \$(6) in relation to the scheme were removed from the balance sheet effective March 1, 2020, resulting in a \$17 expense. This scheme was fully funded under Dutch statutory rules and no special payments or additional funding were required to complete the transfer.

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	Pension benefits	
	Non-U.S. pensions	
	2020	2019
Plans with accumulated benefit obligation in excess of plan assets:		
Accumulated benefit obligations	\$ 24	\$ 35
Plan assets	\$ 13	\$ 16
Plans with projected benefit obligation in excess of plan assets:		
Projected benefit obligations	\$ 28	\$ 44
Plan assets	\$ 14	\$ 21
Accumulated benefit obligation	\$ 27	\$ 258

Net periodic benefit cost

The components of net periodic pension and other post-retirement benefit expense recognized in the Consolidated Statements of Operations and Comprehensive Loss for the years ended December 31, 2020 and 2019 are shown in the table below. The service cost component of net periodic benefit cost and the non-service cost component are included in "Other expense, net" and "Pension non-service cost (income)", respectively, in the Consolidated Statements of Operations and Comprehensive Loss.

	Pension benefits		Other post-retirement benefits	
	2020	2019	2020	2019
	Net periodic expense (Non-U.S. plans)			
Service cost	\$ 1	\$ 4	\$ -	\$ -
Interest cost	2	5	-	2
Expected return on assets	(1)	(10)	-	-
Recognized net losses	-	-	-	(1)
Cost or (income) of special events	15	-	-	-
Total net periodic expense (Non-U.S. plans)	<u>\$ 17</u>	<u>\$ (1)</u>	<u>\$ -</u>	<u>\$ 1</u>

Assumptions

Weighted-average assumptions used to measure the benefit obligation as of the measurement date were as follows:

	Pension benefits	Other post-retirement benefits	Pension benefits	Other post-retirement benefits
	Non-U.S. pensions	2020	Non-U.S. pensions	2019
	2020	2019	2019	2019
Discount rate	0.4% - 8.0%	0.1% - 8.0%	0.7% - 8.7%	0.4% - 8.7%
Rate of compensation increase	2.0% - 5.5%	4.0%	2.0% - 5.0%	3.0%

Weighted-average assumptions used to determine the net periodic benefit cost were as follows:

	Pension benefits	Other post-retirement benefits	Pension benefits	Other post-retirement benefits
	Non-U.S. pensions	2020	Non-U.S. pensions	2019
	2020	2019	2019	2019
Discount rate	0.7% - 8.7%	0.4% - 8.7%	1.7% - 10.5%	1.3% - 10.5%
Expected return on assets	2.5% - 9.2%	n/a	1.8% - 9.2%	n/a
Rate of compensation increase	2.0% - 5.0%	3.0%	1.8% - 7.6%	4.8%

The expected long-term rates of return on assets are estimated based on many factors including the expected forecast for inflation, risk premiums for each asset class, expected asset allocation, current and

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future financial market conditions, and diversification and rebalancing strategies. Historical return patterns and correlations and other relevant factors are analyzed to check for reasonableness and appropriateness. The assumed health care cost trend rates used to determine the accumulated post-retirement benefit obligation are as follows:

	2020	2019
Health care cost trend rate assumed for following year	11.8%	11.8%
Rate to which the cost trend rate is assumed to decline (ultimate rate)	4.8%	4.8%
Year that the trend rate reaches the ultimate rate	2033	n/a

Plan asset information

The overall investment policy for all defined benefit pension plans is to invest pension plan assets in diversified portfolios consisting of an array of asset classes within the target asset allocation ranges. The investment risk of the assets is limited by appropriate diversification both within and between asset classes. The target asset allocation of the pension plans has been established based on the expected long-term capital outlook, the expected growth of the plans' liabilities, and the risk adjusted expected return of the various investment alternatives. The assets are managed with a view to ensure that sufficient liquidity will be available to meet expected cash flow requirements and to minimize the present value of future contributions. Asset allocations and investment performance are reviewed by each plan's Investment Committee.

The allocations for the majority of plan assets are strategic targets that fall in range of target allocations dictated by formal investment plans adopted by scheme managers and reviewed by pension regulators and may vary due to current market conditions. Current strategic allocations for the majority of the international plans' assets are 53% fixed income securities, 17% global developed equity, 6% emerging market equity, and 24% cash and cash equivalents.

The fair values of The LYCRA Company's pension plan assets by asset category for the years ended December 31, 2020 and 2019 are as follows:

Asset class	Non-U.S. plan assets							
	December 31, 2020				December 31, 2019			
	Quoted prices in active markets for identical assets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Net Asset Value	Quoted prices in active markets for identical assets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Net Asset Value
Cash and cash equivalents ⁽¹⁾	\$ 2	\$ -	\$ -	\$ 2	\$ 3	\$ -	\$ -	\$ -
U.S. equity ⁽²⁾	-	-	-	-	38	-	-	-
Developed international equity ⁽³⁾	-	-	-	3	37	-	-	3
Emerging market equity ⁽⁴⁾	-	-	-	1	11	-	-	2
Fixed income securities ⁽⁵⁾	-	-	-	9	75	3	70	10
Opportunities ⁽⁶⁾	-	-	-	-	-	-	-	3
Private equity funds ⁽⁷⁾	-	-	-	-	2	-	-	-
	\$ 2	\$ -	\$ -	\$ 15	\$ 166	\$ 3	\$ 70	\$ 18

- (1) Includes cash, repurchase agreements and short-term government issues, and mutual and commingled cash equivalent funds.
- (2) Includes U.S. equity holdings and mutual and commingled funds invested in U.S. equities.
- (3) Primarily includes mutual and commingled funds invested in equity investments in European Union countries, Japan, Hong Kong, and Australia.
- (4) Includes mutual and commingled funds invested in international equities other than in developed countries.
- (5) Includes domestic and international corporate and government bonds and mutual and commingled fixed income securities.
- (6) Includes tactical investment swaps, alternative investments considered outside the traditional asset classes including options, hedge funds, and financial derivatives, and, if market conditions create opportunities, may include traditional assets classes of stocks, bonds, and cash.

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(7) Includes private equity funds that invest primarily in U.S. companies.

Level 1 pension assets are measured at fair value using the market approach or unadjusted quoted prices in an active market for identical assets that The LYCRA Company has the ability to access at December 31.

Level 2 pension assets are measured at fair value using the income approach or inputs other than quoted prices under Level 1 that are observable for the asset, either directly or indirectly. Level 2 pension assets include indices, yield curves, matrix pricing, and market corroborated pricing to measure their fair values.

Level 3 pension assets are measured at fair value using the cost approach or unobservable inputs for the asset that rely on The LYCRA Company's own assumptions concerning the assumptions that market participants would use in pricing an asset including assumptions about risk. Level 3 pension assets were measured using investment manager pricing.

NAV pension assets are measured at a net asset value as a practical expedient for fair value, and have been appropriately excluded from the fair value hierarchy. Assets measured at NAV generally can be redeemed within 3-90 days.

The following table reconciles the beginning and ending fair values of plan assets, which are measured using significant unobservable inputs (Level 3):

	Non-U.S. plan assets				
	Developed international equity	Fixed income securities	Opportunities	Real assets	Total
Balances at December 31, 2019	\$ -	\$ 70	\$ -	\$ -	\$ 70
Purchases, sales, and settlements	-	(70)	-	-	(70)
Balances at December 31, 2020	\$ -	\$ -	\$ -	\$ -	\$ -

Funding expectations

In 2021, The LYCRA Company expects to contribute approximately \$2 and \$0 to pension and other post-retirement benefit plans, respectively.

Benefit payments

Expected future benefit payments over the next 10 years from The LYCRA Company's pension plans are as follows:

	<u>Pension benefits</u>	<u>Other</u>
	<u>Non-U.S. pensions</u>	<u>post-retirement benefits</u>
2021	\$ 2	\$ -
2022	2	-
2023	3	-
2024	2	-
2025	2	-
2026-2030	14	-
	<u>\$ 25</u>	<u>\$ -</u>

Defined contribution plans

In addition to the pension and other post-retirement plans, The LYCRA Company sponsors a defined contribution 401(k) plan for employees primarily in the U.S. in which The LYCRA Company is a participating employer. Additionally, The LYCRA Company sponsors defined contribution plans outside the U.S. The

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LYCRA Company's expense for these plans was \$6 and \$7 for the years ended December 31, 2020 and 2019, respectively.

12. Share-based compensation

In 2019, The LYCRA Company adopted a long-term incentive plan (the "Plan") pursuant to which The LYCRA Company may grant SAR to key employees to be settled in either cash or shares of The LYCRA Company. The LYCRA Company has no history of creating any implicit obligation to pay in cash, nor does it intend to cash settle these awards. The Plan authorizes grants for up to 1,000,000 shares, which are notional interests representing 10% of the total notional interests based on The LYCRA Company's issued shares. All SAR have ten-year terms from the date of grant.

The SAR vesting terms are either market-based dependent upon the performance of the share price ("Performance-based") or Time-based. The number of Performance-based SAR which shall vest will be computed based on annually compounded internal rate of return targets, computed on the fair market value of the shares. Time-based SAR will vest in annual installments over a period of years as specified in the applicable award agreement, subject to continued employment. The LYCRA Company determined the fair value of the Performance-based SAR using an independent third-party valuation and the aggregate expense of \$8 is recorded over the three-year measurement period on a straight-line basis regardless of vesting, subject to continued employment, if applicable. Also using an independent third-party valuation, the Time-based SAR were valued at \$9 in the aggregate, which is expensed over the four-year service period on a graded vesting basis.

No SAR vested during the years ended December 31, 2020 or 2019.

The assumptions used in valuing the Performance-based and Time-based Appreciation SAR are as follows:

	<u>Performance-based SAR</u>	<u>Time-based SAR</u>
Weighted-average fair value on date of grant	\$ 20.19	\$ 22.18
Assumptions used to calculate fair value:		
Expected dividend yield	0.00%	0.00%
Expected volatility	40.00%	40.00%
Expected term (years)	2.5	2.5
Risk-free interest rate	1.83%	1.83%

The fair value is determined on the date of grant. Since The LYCRA Company is not publicly traded, management utilizes equity valuations based on (a) stock market valuations of public companies in comparable businesses, (b) value of the future cash flows that the business will generate, and (c) any other factors deemed relevant. The risk-free rate for periods within the contractual life of the SAR is based on the U.S. Treasury yield curve in effect at the time of grant. Expected volatilities are based on implied volatilities from market comparisons of certain publicly traded companies and other factors. The expected term is derived from historical experience and expectations and represents the period of time that SAR granted are expected to be outstanding. The requisite service period is generally three or four years from the date of grant.

Share-based compensation expense amounted to \$5 and \$3 for the years ended December 31, 2020 and 2019, respectively, and is reflected in "Selling, general and administrative expenses" in the Consolidated Statements of Operations and Comprehensive Loss. The total income tax benefit related to the share-based compensation arrangements was \$1 and \$0 for the years ended December 31, 2020 and 2019, respectively, and is reflected in "Income tax expense" in the Consolidated Statements of Operations and Comprehensive Loss.

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A summary of the status of The LYCRA Company's Performance-based SAR and Time-based SAR and changes during the year ended December 31, 2020 is presented below:

	Performance-based SAR		Time-based SAR	
	Units	Weighted-average grant date fair value	Units	Weighted-average grant date fair value
Unvested balance at December 31, 2019	400,000	\$ 20.19	400,000	\$ 22.18
Granted	-	-	-	-
Vested	-	-	-	-
Forfeited	(38,500)	(20.19)	(64,125)	(22.18)
Unvested balance at December 31, 2020	361,500	\$ 20.19	335,875	\$ 22.18

At December 31, 2020, there was approximately \$3 and \$4 of unrecognized non-cash share-based compensation related to Performance-based SAR and Time-based SAR, respectively that The LYCRA Company expects to record over 1 year and 2 years, respectively.

13. Interest expense, net

	Year ended December 31,	
	2020	2019
Interest charges	\$ 67	\$ 67
Amortization of financing fees ⁽¹⁾	7	7
Interest on promissory note	5	2
Interest on revolving credit facility	3	1
Interest (income)	-	(2)
	<u>\$ 82</u>	<u>\$ 75</u>

(1) Includes amortization of financing fees associated with the Notes and RCF.

14. Income taxes

Current and deferred income tax expense included in "Income tax expense" in the Consolidated Statements of Operations and Comprehensive Loss for the years ended December 31, 2020 and 2019:

	Year ended December 31,	
	2020	2019
Income tax expense (benefit)		
Current		
Netherlands	\$ -	\$ -
Foreign	21	21
	<u>21</u>	<u>21</u>
Deferred		
Netherlands	(4)	(12)
Foreign	4	(1)
	<u>-</u>	<u>(13)</u>
	<u>\$ 21</u>	<u>\$ 8</u>

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Income tax expense included in "Other comprehensive income (loss), net of tax" in the Consolidated Statements of Operations and Comprehensive Loss for the years ended December 31, 2020 and 2019 are as follows:

	Year ended December 31,	
	2020	2019
Deferred		
Netherlands	\$ -	\$ (2)
Foreign	-	-
Total deferred	-	(2)
Total provision	\$ -	\$ (2)

For 2020 and 2019, The LYCRA Company's effective tax rate differed from the 25% statutory Netherlands tax rate primarily due to valuation allowances, non-deductible expenses, non-includable book income items, and lower statutory rates in other jurisdictions.

The tax effects of the temporary differences that give rise to significant portions of the net deferred tax assets at December 31, 2020 and 2019 are as follows:

	December 31,	
	2020	2019
Gross deferred tax assets	\$ 245	\$ 169
Valuation allowance	(222)	(162)
Deferred tax assets	23	7
Deferred tax liabilities	(66)	(55)
Net deferred tax liabilities	\$ (43)	\$ (48)

The LYCRA Company's material items included in the net deferred tax assets and liabilities are related to loss carryforwards/credits, interest deductions, unremitted earnings, property, plant and equipment, and other accrued expenses.

No additional income taxes have been provided for any additional outside basis differences in excess of unremitted earnings, as these amounts continue to be indefinitely reinvested in foreign operations. Determining the amount of unrecognized deferred tax liability related to any additional outside basis difference in our foreign entities is not practicable at this time.

The group of companies included in the consolidated financial statements operate in multiple tax jurisdictions that are not part of a single consolidated tax return. Therefore, the classification of deferred tax assets and liabilities on the balance sheet are the result of netting by tax jurisdiction.

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. In 2019, due to The LYCRA Company's brief operating history and net losses incurred since inception, management did not believe it was more likely than not that The LYCRA Company would realize its deferred tax assets. As a result, a valuation allowance was provided for the estimated deferred tax assets of \$162 at December 31, 2019. This put The LYCRA Company in a net deferred tax liability position in the amount of \$48 at December 31, 2019. In 2020, The LYCRA

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Company's consolidated operations resulted in a net loss position. Considering this and The LYCRA Company's brief operating history as of December 31, 2020, management does not believe it is more likely than not The LYCRA Company will realize its deferred tax assets unless offset by reversing a deferred tax liability. The valuation allowance at December 31, 2020 of \$222 relates to the deferred tax assets recorded from acquisitions and ongoing operations for which the ultimate realization of the tax asset may be dependent on future income. This results in The LYCRA Company being in a net deferred tax liability position in the amount of \$43 at December 31, 2020.

The LYCRA Company has net operating loss carryforwards and credits of approximately \$14 that expire over the next 10 years and \$111 with no expiration.

The LYCRA Company currently has no interest or penalties accrued related to uncertain tax positions in the income tax liability account. The LYCRA Company believes fluctuations related to uncertain tax positions occurring within the next twelve months will not have a significant impact on its consolidated financial statements.

The LYCRA Company's operations are included in multiple tax returns filed in many foreign and state jurisdictions. The LYCRA Company was able to close various audits during 2020 without material change. The LYCRA Company is under income tax examination in India for the tax year ended 2016. The LYCRA Company does not expect any material changes to result from this audit. The LYCRA Company is subject to income tax examinations by foreign and state jurisdictions for years 2014 through 2020.

15. Significant customers and related party transactions

Koch Industries Inc. and subsidiaries ("Koch"), Itochu Corporation and subsidiaries ("Itochu"), and 50% equity affiliates Toray Opelontex Co. Ltd. and Shinpont Industry, Inc. are considered related parties.

Significant customers

No customer accounted for greater than 10% of total sales for the years ended December 31, 2020 and 2019.

Purchases from related parties

The LYCRA Company has an agreement to purchase methanol and nylon 6,6 polymer from Koch, spandex fiber from Toray Opelontex Co. Ltd., and LYCRA® T400® from Shinpont Industry Inc. The LYCRA Company also purchases other raw materials and services from Koch. All raw material purchases from related parties are included in "Cost of goods sold and other operating expenses" in the Consolidated Statements of Operations and Comprehensive Loss. Purchases of raw materials and services from related parties were \$53 and \$44 for the years ended December 31, 2020 and 2019, respectively. Related party payable balances reflected in "Payables" in the Consolidated Balance Sheets are \$20 and \$25 at December 31, 2020 and 2019, respectively, and include non-trade payables with Koch of \$0 and \$10 for the Taiwan Acquisition and \$2 and \$7 for the Brazilian VAT credits related to pre-Acquisition balances at December 31, 2020 and 2019, respectively.

Sales to related parties

The LYCRA Company provides goods and services to Koch, Toray Opelontex Co. Ltd., and Itochu. All sales activity between The LYCRA Company and related parties are included in "Sales to related parties" in the Consolidated Statements of Operations and Comprehensive Loss. Sales of finished goods and services to related parties were \$22 and \$40 for the years ended December 31, 2020 and 2019, respectively. Related party receivable balances reflected in "Receivables, net" in the Consolidated Balance Sheets are \$2 and \$6 at December 31, 2020 and 2019, respectively.

The LYCRA Company

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Promissory Note

A side letter to the SPA was entered into on January 31, 2019 and subsequently amended on April 26, 2019 to, among other things, allow for \$78 to be paid under the Promissory Note for the purpose of satisfying the working capital closing adjustment. The Promissory Note was amended and restated on August 30, 2019, in connection with the Taiwan Acquisition. The principal amount and interest under the Promissory Note was payable in two tranches: \$25 of principal on July 31, 2019, which The LYCRA Company satisfied, and the remaining principal amount plus all accrued but unpaid interest on July 31, 2020. Interest accrued on the unpaid principal amount of the Promissory Note outstanding from and including July 31, 2019 until payment in full of all amounts due and would be compounded and capitalized as principal on a quarterly basis (calculated daily) at an initial rate of 10%, and a reduced rate of 7.5% per annum beginning August 30, 2019 per the amended agreement.

The amount due on the Promissory Note on July 31, 2020 equaled \$57, with a failure to pay resulting in an interest step-up to a rate of 12% per annum. On July 31, 2020, The LYCRA Company and INVISTA, INVISTA S.à r.l., and KoSa Foreign Investments S.à r.l. (collectively the "Promissory Note Lenders"), amended and restated the First Amended and Restated Promissory Note to, among other things, extend the maturity date to November 30, 2020, and set the interest rate at 12% per annum, which interest accrued on the unpaid principal amount outstanding from and including July 31, 2020 until payment in full of all amounts due and would be compounded and capitalized as principal on a quarterly basis (calculated daily) beginning on October 1, 2020; provided, that if The LYCRA Company pays the quarterly interest payment in full prior to the date such payment is due and payable, and compounded and capitalized as principal, then the interest rate shall be 7.5% per annum.

On November 24, 2020, The LYCRA Company made a payment of \$41, inclusive of \$35 principal and \$6 interest, reducing the remaining balance of the Promissory Note to \$19 as reflected in Note 10 "Indebtedness - Current debt". The remaining balance, inclusive of accrued interest, was repaid in full on January 8, 2021 as reflected in Note 17 "Subsequent events."

Ruyi Commitment Letters

Eagle Super, as primary obligor, and Jining Ruyi Fibers Co. Ltd. ("Jining Ruyi"), a directly-owned subsidiary of Shandong Ruyi as guarantor, have entered into a commitment letter with Eagle Intermediate Global Holding B.V. and Ruyi U.S. Finance LLC (the "Issuers") dated April 26, 2019, and subsequently amended August 30, 2019 and January 27, 2020, related to the consideration paid and certain fees and expenses incurred by Issuers in connection with the Acquisition. Pursuant to the commitment letter, Eagle Super has committed to Issuers to pay or otherwise satisfy such fees and expenses and Jining Ruyi has guaranteed to the Issuers the due and punctual payment or satisfaction of Eagle Super's obligations.

Eagle Super, as primary obligor, and Jining Ruyi, as guarantor, entered into a commitment letter with Issuers dated August 30, 2019, and subsequently amended January 27, 2020, related to the consideration paid and certain fees and expenses incurred by Issuers in connection with the Taiwan Acquisition. Pursuant to the commitment letter, Eagle Super has committed to Issuers to pay or otherwise satisfy such fees and expenses and Jining Ruyi has guaranteed to the Issuers the due and punctual payment or satisfaction of Eagle Super's obligations.

16. Leases, obligations, and contingent liabilities

Leases

The LYCRA Company leases various buildings and other facilities as well as equipment and vehicle under operating leases. Certain of these leases contain renewal and purchase options, as well as, step-rent provisions. Rental expense arising from these leases was \$9 and \$11 for the years ended December 31, 2020 and 2019, respectively.

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Future minimum leases commitments related to long-term operating leases and other purchase obligations are as follows:

Maturity Period	Operating Leases Obligations	Purchase Obligations	Total
2021	\$ 6	\$ 16	\$ 22
2022	4	10	14
2023	3	5	8
2024	2	5	7
2025	2	4	6

17. Subsequent events

The LYCRA Company has completed an evaluation of all subsequent events through March 31, 2021, the date its audited consolidated financial statements were available to be issued, and concluded that no subsequent events occurred that required recognition other than those described below.

On January 8, 2021, The LYCRA Company paid the full outstanding balance of \$19 to the Promissory Note Lenders.

On March 15, 2021, The LYCRA Company completed the sale of certain of its pipeline assets at its former polyurethane intermediates facility in La Porte, Texas and received gross cash proceeds of \$25, subject to certain costs incurred in the transaction.