QUARTERLY REPORT

For the period ended March 31, 2022

(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

investorrelations@lycra.com

Date posted: May 27, 2022

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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 quarterly report to:

- "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 closed on January 31, 2019.
- "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.
- "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.
- "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.
- "Enforcement Action" or "Enforcement Proceedings" means the action taken by an investor group who made loans to one of our shareholders, Ruyi Textile and Fashion International Group Limited ("Ruyi Textile") forming a Mezzanine Credit Facility for Ruyi Textile, on which Ruyi Textile defaulted. On February 21, 2022, the investor group appointed Mr. Edward Simon Middletown and Ms. Wing Sze Tiffany Wong of Alvarez and Marsal Asia Limited ("A&M") as joint and several receivers and managers over Ruyi Textile's assets and over the shares of Ruyi Textile owned by its majority shareholder. As noted by The LYCRA Company in its current report dated February 24, 2022, The LYCRA Company was notified of the participation in the Enforcement Action by holders of a majority of the aggregate principal amount of Notes outstanding.
- "Euro Notes" mean €250 aggregate principal amount of 5.375% Senior Secured Notes due 2023.

The LYCRA Company

Certain References

(Amounts in millions of U.S. dollars)

- "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."

- "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.

- "INVISTA" refers, collectively, to KoSa Foreign Investments S.à r.l., INVISTA S.à r.l. and INVISTA Equities, LLC.

- "Issuers" refers to the Dutch Co-Issuer and the U.S. Co-Issuer.

- "Jining Ruyi" means Jining Ruyi Fibers Co. Ltd., a direct-subsidiary of Ruyi.

- "La Porte" refers to The LYCRA Company's polyurethane intermediates manufacturing facility located in La Porte, Texas, which was shut down in October 2020.

- "Laika" means Laika New Material (Foshan) Co., Ltd., a majority-owned joint venture with a related party minority partner, Wanzhong, and equity affiliate of Chuanglai Fiber (Foshan) Co., Ltd., a wholly owned subsidiary of The LYCRA Company.

- "MDI" means methylene diphenyl diisocyanate, a chemical compound used in the production of certain of our products.

- "Non-Guarantors" or "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.

- "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.

- "Revolving Credit Facility" or "RCF" means the $100 super senior revolving credit facility provided for in the Revolving Credit Facility Agreement.

- "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.

- "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.

- "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.

- "Wanzhong" means Jining Ruyi Wanzhong Venture Capital Management Partnership, a related party minority interest owner of Laika, and a Limited Partnership controlled by Ruyi.

The LYCRA Company

Forward-Looking Statements

(Amounts in millions of U.S. dollars)

Certain of the statements made in this quarterly 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 quarterly 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 quarterly report and in the "Risk Factors" section of our annual report for the fiscal year ended December 31, 2021. Those factors should not be construed as exhaustive and should be read with the other cautionary statements in this quarterly report.

In light of these risks, uncertainties, and assumptions, the forward-looking events described in this quarterly 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 quarterly report. These are factors that we think would cause our actual results to differ materially from expected results. Other sections of this quarterly 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.

The LYCRA Company
Use of Non-GAAP Financial Measures
(Amounts in millions of U.S. dollars)

Non-GAAP Financial Measures

In this quarterly 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 quarterly 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 quarterly 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.

The LYCRA Company

Risk Factors

(Amounts in millions of U.S. dollars)

In addition to the other information set forth in this quarterly report, you should carefully consider the "Risk Factors" in our annual report for the fiscal year ended December 31, 2021. There have been no material changes from the "Risk Factors" previously disclosed in our annual report for the fiscal year ended December 31, 2021.

The LYCRA Company

Management's Discussion and Analysis of Financial Condition and Results of Operations

(Amounts in millions of U.S. dollars)

The statements in the following discussion and analysis of financial condition and results of operations regarding 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 quarterly 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," and the unaudited condensed interim consolidated financial statements included elsewhere in this quarterly report.

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, sustainable solutions, 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.

The LYCRA® brand has achieved nearly 90% 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 800 patents which make up 120 unique patent families, in addition to a portfolio of approximately 2,300 trademarks that protect 105 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 2011 and 2021 accounting for approximately 78% of our LYCRA® and LYCRA HyFit® fiber sales.

Certain events announced in 2022

See Note 17 *Subsequent events* within the Notes to the Consolidated Financial Statements.

Significant factors that affect our results of operations

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

COVID-19

The outbreak of COVID-19 acted as a massive restraint on the economies and financial markets in 2020 as supply chains were disrupted and consumption declined partially due to lockdowns imposed by governments globally.

During 2021 and in first quarter of 2022, our sales exceeded pre-pandemic levels and our spandex facilities have been operating at or near capacity. Even though global economies rebounded as COVID-19 vaccines became widely available and consumer demand recovered strongly, COVID-19 has continued to disrupt supply chains and results of business operations worldwide. We currently expect that the COVID-19 outbreak will continue to impact our financial performance further into 2022, particularly as it pertains to the recent resurgence of COVID-19 in China.

The extent to which the COVID-19 pandemic will continue to impact our business, financial condition, and results of operations will depend on numerous evolving factors that are unpredictable, including the duration and scope of the pandemic; governmental, business, and individuals' actions that have been and continue to be taken in response to the pandemic; and the impact of the pandemic on global economic activity, unemployment levels, and financial markets, including the possibility of a global recession and volatility in the global capital markets which, among other things, may increase the cost of capital and adversely impact our access to capital. Any of the foregoing could have a material adverse impact on our business, financial condition, and results of operations.

We are unable to predict the ultimate magnitude and duration of economic disruption from the COVID-19 pandemic and the more recent appearance of COVID variants or the re-imposition or continuation of restrictive measures designed to combat the COVID-19 pandemic by national, regional, and local governments. The other risk factors identified within this document may be exacerbated by the effects of COVID-19 and the related economic, monetary, and political impact (and potential disruption) with respect to it.

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 together account for approximately 87% and 81% of the spandex ingredients cost for the three months ended March 31, 2022 and 2021, 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.

We have experienced increases in our global average PTMEG purchase prices for nearly all of 2021 and, although prices have declined since the end of 2021, they continue to remain elevated in the first quarter of 2022 as compared to the same period in 2021. This change in purchase price has impacted cost of goods sold and working capital. Historically, we have maintained prices for our differentiated products, absorbing changes in the raw material market. Starting in 2021 and continuing through the first quarter 2022, we have been strategically raising the prices of our branded LYCRA® fiber and LYCRA HyFit® fiber to minimize impacts to our gross margin.

In addition, we started to see an increase in our energy costs at our manufacturing facilities, particularly our UK site during 2021, and we continued to see increases during the first quarter of 2022 at the majority of our facilities, most notably at our UK and Singapore sites. The increase in cost is primarily a result of higher natural gas, coal, and fuel oil prices and we expect these higher prices will continue to impact our manufacturing facilities for the remainder of 2022.

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 affected by the impact COVID-19 had 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. Subsequent to the COVID-19 pandemic, certain macro-economic trends, such as growth in the athleisure category and increased comfort expectation across garment categories, are supporting continued growth in demand for spandex products.

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 ELASPAN® 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 ELASPAN® fiber on the incremental 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. In Europe, demand is negatively impacted by seasonality in August due to annual summer shutdown periods at mills.

Facility downtime

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 93% and 94% for the three months ended March 31, 2022 and 2021, respectively.

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 euros, Chinese yuan, and Brazilian reais. Approximately 44% and 47% of our net sales for the three months ended March 31, 2022 and 2021, 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) receivables on foreign sales, (3) payables, and (4) pension. These are recognized in the income statement as a gain or loss on foreign currency revaluation within "Other (income), net."

The portion of our cost of goods sold and other operating expenses outside the U.S., primarily payroll and rent, 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, and specialty polyester. 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% of our gross profit for the three months ended March 31, 2022 and 2021, 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. For example, our decision to exit the TERATHANE® product line during 2020 supports our product mix strategy.

Price policy

Our differentiated products accounted for approximately 92% and 94% of total fiber sales for the three months ended March 31, 2022 and 2021, 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, 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 47% of our global sales for the three months ended March 31, 2022 were concentrated in four countries: the PRC (20%), the United States (14%), Italy (7%), and Brazil (6%), compared to approximately 51% of our global sales for the three months ended March 31, 2021, concentrated in the PRC (26%), the United States (12%), Brazil (7%), and Italy (6%).

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 each of the three months ended March 31, 2022 and 2021. 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 an investor company, Itochu Corporation affiliates, at prevailing market price, and they represent approximately 2% of our total sales for each of the three months ended March 31, 2022 and 2021.

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. Raw materials, packaging, freight, and energy accounted for approximately 80% and 71% of our cost of goods sold and other operating expenses for the three months ended March 31, 2022 and 2021, respectively.

Selling, general and administrative expenses

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

Restructuring reflects costs or income associated with restructuring events, including change in management and corporate action, site closures, workforce reductions, asset write-downs and recoveries, and sale of certain assets previously written-off.

Other (income) expense, net

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

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 Shinpont Industry, Inc. and our more than 50% ownership interest in Laika.

(Amounts in millions of U.S. dollars)

Interest expense, net

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

Net (income) attributable to noncontrolling interest

Net (income) attributable to noncontrolling interest represents the minority interests' share of income 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 unaudited condensed interim consolidated financial results for the three months ended March 31, 2022 and 2021.

	Three months ended March 31, 2022	Three months ended March 31, 2021
Net sales	$ 328	$ 263
Sales to related parties	7	5
Total sales	335	268
Royalty and licensing income, net	2	1
Total revenue	337	269
Cost of goods sold and other operating expenses	273	197
Gross profit	64	72
Selling, general and administrative expenses	30	30
Research and development expenses	7	7
Restructuring (income) expense	4	(28)
Other (income), net	(11)	(10)
Operating income	34	73
Equity in (income) of affiliates	(2)	(2)
Interest expense, net	19	20
Income before income taxes	17	55
Income tax expense	3	12
Consolidated net income	14	43
Net (income) attributable to noncontrolling interest	(1)	(2)
Net income attributable to The LYCRA Company	$ 13	$ 41

Total sales

"Total sales" were $335 and $268 for the three months ended March 31, 2022 and 2021, respectively. The main driver of the increase in the current year is higher pricing, particularly for LYCRA® fiber and LYCRA HyFit® fiber, partially offset by a decrease in volumes sold in the current year.

Cost of goods sold and other operating expenses

"Cost of goods sold and other operating expenses" were $273 and $197 for the three months ended March 31, 2022 and 2021, respectively. The increase in the current year is driven by higher variable costs primarily due to PTMEG raw material costs driven by high demand on low supply availability. It is also driven by higher freight costs due to the disruptions of supply chains and higher energy costs.

Selling, general and administrative expenses

"Selling, general and administrative expenses" were $30 for each of the three months ended March 31, 2022 and 2021. These include administrative, selling, marketing, and advertising and promotion costs.

Research and development expenses

"Research and development expenses" were $7 for each of the three months ended March 31, 2022 and 2021.

Restructuring (income) expense

"Restructuring (income) expense" was $4 and $(28) for the three months ended March 31, 2022 and 2021, respectively. The current year includes $7 legal and advisory costs associated with the Enforcement Action, partially offset by $(3) benefit from the extinguishment of remaining asset retirement obligations and related termination of ground lease at La Porte. The prior year benefit is primarily due to the gain on sale of pipeline assets at La Porte, net of the costs associated with the transaction of $(23), as well as the extinguishment of related asset retirement obligations at the site of $(4).

Other (income), net

"Other (income), net" was $(11) and $(10) for the three months ended March 31, 2022 and 2021, respectively, which is primarily driven by foreign currency gains on the Euro Notes.

Equity in (income) of affiliates

"Equity in (income) of affiliates" was $(2) for each of the three months ended March 31, 2022 and 2021.

Interest expense, net

"Interest expense, net" was $19 and $20 for the three months ended March 31, 2022 and 2021, respectively, which mostly includes interest on the Notes.

Income tax expense

"Income tax expense" was $3 and $12 for the three months ended March 31, 2022 and 2021, respectively and the effective tax rate was 18% and 22% for the three months ended March 31, 2022 and 2021, respectively. The effective tax rate differs 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 different than the Netherlands' statutory rate.

Net (income) attributable to noncontrolling interest

"Net (income) attributable to noncontrolling interest" was $(1) and $(2) for the three months ended March 31, 2022 and 2021, 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 income to EBITDA and Adjusted EBITDA for the periods presented (unaudited):

(Amounts in millions of U.S. dollars)

	For the three months ended March 31, 2022	2021
Consolidated net income	$ 13.6	$ 42.8
Interest expense	19.7	19.6
Income tax expense	3.1	12.5
Depreciation and amortization	17.0	17.9
EBITDA	53.4	92.8
Joint venture EBITDA adjustment [(a)]	1.5	1.4
Noncontrolling interest EBITDA [(b)]	(1.3)	(2.7)
Foreign exchange adjustment [(c)]	0.2	(0.3)
Foreign exchange on bonds [(d)]	(9.5)	(10.3)
Other nonrecurring items [(e)]	0.2	0.6
La Porte restructuring [(f)]	(2.6)	(28.4)
Other restructuring [(g)]	7.0	—
Impact of PRC functional currency [(h)]	0.5	—
La Porte post-closure costs [(i)]	—	3.9
Financing costs [(j)]	—	0.4
Adjusted EBITDA	$ 49.4	$ 57.4

(a) Represents an adjustment to conform The LYCRA 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.

(b) Represents the share of EBITDA attributable to the noncontrolling interest of The LYCRA Company Singapore Pte. Ltd.

(c) Represents foreign currency remeasurement relating to income taxes, most significantly in Brazil, Hong Kong, Switzerland, and the PRC.

(d) Represents the amount of foreign currency remeasurement on the Euro Notes.

(e) Represents certain other nonrecurring costs.

(f) Represents a reversal of certain accrued liabilities and recognition of income from the sale of pipeline assets at La Porte, net of costs associated with the transaction in March 2021.

(g) Represents accrued legal and advisory costs incurred due to the Enforcement Action.

(h) Represents impacts from the 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.

(i) Represents costs incurred at La Porte during 2021 following the cessation of operations in the fourth quarter of 2020.

(j) Represents one-time costs related to the Revolving Credit Facility during 2021.

Guarantors/Non-Guarantors

For the three months ended March 31, 2022 and 2021, the Guarantors represented approximately 69% and 72% of Adjusted EBITDA and approximately 76% and 74% of total sales, respectively, excluding transactions with Non-Guarantors. As of March 31, 2022 and December 31, 2021, the Guarantors represented approximately 88% and 86% 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 three months ended March 31, 2022 and 2021, such subsidiary organized under the laws of the PRC represented approximately 33% of Adjusted EBITDA for each period, and approximately 19% and 21% of total sales, respectively, excluding transactions with the Guarantors. As of March 31, 2022 and December 31, 2021, such subsidiary organized under the laws of the PRC represented approximately 12% and 14%, 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 March 31, 2022 and December 31, 2021, we had total cash and cash equivalents of approximately $46 and $32, 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 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 March 31, 2022, the outstanding utilization of the Revolving Credit Facility was $50. We have recently negotiated with our lenders under the Revolving Credit Facility Agreement to extend the maturity date from November 2022 to February 2023. See *"–Certain events announced in 2022"* for more detail.

As part of the Acquisition, a side letter to the Acquisition Agreement allowed for payment to INVISTA under a Promissory Note for the purpose of satisfying a working capital closing adjustment. The Promissory Note was settled in full (along with accrued and unpaid interest) on January 8, 2021.

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.

(Amounts in millions of U.S. dollars)

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 these joint venture 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 (Capex)

Our facilities capital expenditures typically 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 were $2 for each of the three months ended March 31, 2022 and 2021.

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 three months ended March 31, 2022 were mainly associated with maintenance costs and expenditures for the three months ended March 31, 2021 were associated with both maintenance and growth costs spread among nearly all of our facilities.

	For the three months ended March 31,	
	2022	**2021**
Maintenance Capex	$ 2	$ 1
Growth Capex	—	1
	$ 2	$ 2

Historical cash flow data

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

	For the three months ended March 31,		
	2022	**2021**	**Change**
Net cash provided by operating activities	$ 15	$ 27	$ (12)
Net cash provided by (used in) investing activities	(2)	22	(24)
Net cash (used in) financing activities	—	(24)	24

"Net cash provided by operating activities" was $15 and $27 for the three months ended March 31, 2022 and 2021, respectively. The decrease is primarily driven by higher costs for raw materials and energy in the current period.

"Net cash provided by (used in) investing activities" was $(2) and $22 for the three months ended March 31, 2022 and 2021, respectively. Cash uses for the three months ended March 31, 2022 reflect normal capital expenditures and cash provided for the three months ended March 31, 2021 includes the sale of pipeline assets of $24 at La Porte, partially offset by $(2) of normal capital expenditures.

"Net cash (used in) financing activities" consisted primarily of the final payment of principal on the Promissory Note of $(18) and dividends paid to the noncontrolling interest of $(6) for the three months ended March 31, 2021.

Pension liabilities

We also have obligations with respect to pension and other post-retirement benefits. As of March 31, 2022, and December 31, 2021, we had funded and unfunded plans in which the aggregate amount of the projected benefit obligations exceeded the fair value of plan assets by $8 for each period. 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 have purchase commitments for certain operating supply contracts, capital projects, and services. These purchase obligations were $47 as of March 31, 2022, compared to $28 as of December 31, 2021. The increase as of March 31, 2021 is primarily driven by costs in connection with the Enforcement Action.

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 unaudited condensed interim consolidated financial statements as of March 31, 2022, 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 March 31, 2022, as stated in Note 2 *Summary of significant accounting policies and practices – Recently issued accounting standards* 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 in the December 31, 2021 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. 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 further into 2022, particularly as it pertains to the recent resurgence of COVID-19 in China. 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.

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 income in our Consolidated Statement of Shareholder's Equity for the three months ended March 31, 2022. 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 euros, Chinese yuan, and Brazilian reais. We do not currently engage in hedging activities intended to limit exposure to foreign currency transaction or translation risk.

For the three months ended March 31, 2022, a 10% change in the exchange rate would have had the following revenue impacts relative to the U.S. dollar: (1) a $6 impact related to the euro, (2) a $6 impact related to the Chinese yuan, and (3) a $2 impact related to the Brazilian real.

Interest rate risk

Our indebtedness and other debt arrangements are primarily comprised of the Notes (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.

We have experienced increases in our global average PTMEG purchase prices for nearly all of 2021 and, although prices have declined since end of 2021, they continue to remain elevated in the first quarter 2022 as compared to the same period in 2021. This change in purchase price has impacted cost of goods sold and working capital. Historically, we have maintained prices for our differentiated products, absorbing changes in the raw material market. Starting in 2021 and continuing through the first quarter of 2022, we have been strategically raising the prices of our branded LYCRA® fiber and LYCRA HyFit® fiber to minimize impacts to our gross margin.

In addition, we started to see an increase in energy costs at our manufacturing facilities, particularly our UK site during 2021, and we continued to see increases during the first quarter of 2022 at the majority of our facilities, most notably at our UK and Singapore sites. The increase in cost is primarily a result of higher natural gas, coal, and fuel oil prices and we expect to see these higher prices continue to impact our manufacturing facilities for the remainder of 2022.

The LYCRA Company

Certain Relationships and Related Party Transactions

(Amounts in millions of U.S. dollars)

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 Toray Opelontex Co. Ltd. and Itochu Corporation subsidiaries and affiliates. All sales activity with the affiliates are included in "Sales to related parties" in the unaudited condensed interim consolidated financial statements included elsewhere in this quarterly report. Sales of finished goods and services to affiliates were $7 and $5 for the three months ended March 31, 2022 and 2021, respectively.

Promissory Note

As part of the Acquisition, a side letter to the Acquisition Agreement allowed for payment to INVISTA under a Promissory Note for the purpose of satisfying a working capital closing adjustment. The Promissory Note was settled in full (along with accrued and unpaid interest) on January 8, 2021.

Laika Joint Venture

On August 3, 2021, The LYCRA Company established a majority-owned joint venture, Laika, with a related party minority partner, Wanzhong, for the purpose of acquiring additional spandex manufacturing capacity from Jining Ruyi High-tech Fiber Material Co., Ltd in China. See Note 14 *Significant customers and related party transactions – Laika Joint Venture* 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, related to certain fees and expenses incurred by Issuers in connection with the Acquisition. A similar letter was entered into in connection with the Taiwan Acquisition. These provided a commitment to pay or reimburse certain amounts paid by the Issuers.

The recent appointment of receivers over the assets of, and shares held by the majority shareholder of, Ruyi Textile, which has disenfranchised the Parent and Jining Ruyi from The LYCRA Company, could make payment and/or recovery under these commitment letters unlikely.

Eagle Super Global Holding B.V. and Subsidiaries

d/b/a The LYCRA Company

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

For the period ended March 31, 2022

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The LYCRA Company

Consolidated Balance Sheets

(Amounts in millions of U.S. dollars)

(Unaudited)

	March 31, 2022	December 31, 2021
Assets		
Current assets:		
Cash and cash equivalents	$ 46	$ 32
Restricted cash	2	3
Receivables, net	190	184
Inventories, net	240	239
Prepaid expenses and other current assets	37	43
Total current assets	515	501
Property, plant and equipment, net	317	329
Right of use lease assets, net	56	60
Goodwill	953	953
Other intangible assets, net	474	477
Investments in equity affiliates	168	166
Other assets	12	9
Total assets	$ 2,495	$ 2,495
Liabilities and Shareholder's Equity		
Current liabilities:		
Current debt	$ 50	$ 50
Lease liabilities, current portion	4	5
Payables	118	134
Accrued and other current liabilities	91	75
Total current liabilities	263	264
Long-term debt, net	944	952
Lease liabilities, long-term	30	31
Pension and other post-retirement benefit liabilities	8	8
Other liabilities	2	7
Deferred income tax liabilities	40	40
Total liabilities	$ 1,287	$ 1,302
Shareholder's equity:		
Shareholder's equity	$ 1,083	$ 1,069
Accumulated other comprehensive income	27	27
Total The LYCRA Company shareholder's equity	1,110	1,096
Noncontrolling interest	98	97
Total shareholder's equity	1,208	1,193
Total liabilities and shareholder's equity	$ 2,495	$ 2,495

See accompanying notes to the consolidated financial statements.

The LYCRA Company

Consolidated Statements of Operations and Comprehensive Income (Loss)

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

	Three months ended March 31,	
	2022	**2021**
Net sales	$ 328	$ 263
Sales to related parties	7	5
Total sales	335	268
Royalty and licensing income, net	2	1
Total revenue	337	269
Cost of goods sold and other operating expenses	273	197
Gross profit	64	72
Selling, general and administrative expenses	30	30
Research and development expenses	7	7
Restructuring (income) expense	4	(28)
Other (income), net	(11)	(10)
Operating income	34	73
Equity in (income) of affiliates	(2)	(2)
Interest expense, net	19	20
Income before income taxes	17	55
Income tax expense	3	12
Consolidated net income	14	43
Net (income) attributable to noncontrolling interest	(1)	(2)
Net income attributable to The LYCRA Company	$ 13	$ 41
Consolidated net income	$ 14	$ 43
Other comprehensive income (loss), net of tax		
Recognition of actuarial gains	—	—
Foreign currency translation adjustment	—	—
Comprehensive income	14	43
Net (income) attributable to noncontrolling interest	(1)	(2)
Comprehensive income attributable to The LYCRA Company	$ 13	$ 41

See accompanying notes to the consolidated financial statements.

The LYCRA Company

Consolidated Statement of Shareholder's Equity

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

	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, 2020	$ (473)	$ 1,486	$ 20	$ 1,033	$ 98	$ 1,131
Consolidated net income	54	—	—	54	5	59
Dividends paid to noncontrolling interest	—	—	—	—	(6)	(6)
Contributed cash	—	—	—	—	—	—
Share-based compensation	—	2	—	2	—	2
Other comprehensive income	—	—	7	7	—	7
Balances at December 31, 2021	$ (419)	$ 1,488	$ 27	$ 1,096	$ 97	$ 1,193
Consolidated net income	13	—	—	13	1	14
Share-based compensation	—	1	—	1	—	1
Balances at March 31, 2022	$ (406)	$ 1,489	$ 27	$ 1,110	$ 98	$ 1,208

See accompanying notes to the consolidated financial statements.

The LYCRA Company

Consolidated Statements of Cash Flows

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

	Three months ended March 31, 2022	2021
Cash flows from operating activities:		
Consolidated net income	$ 14	$ 43
Adjustments to reconcile consolidated net income to net cash provided by operating activities:		
Depreciation and amortization	17	17
Amortization of bank financing costs	2	2
Share-based compensation	1	—
Exchange rate changes on cash and cash equivalents and restricted cash	—	1
Undistributed (earnings) from investment in equity affiliates	(2)	(2)
(Gain) on sale of pipeline assets	—	(23)
Deferred income taxes	—	2
Pension expense, net of contributions	—	1
Return on investment in equity affiliates	—	3
Changes in assets and liabilities: (1)		
Receivables	(6)	(10)
Inventories	(1)	(17)
Other assets	5	(6)
Payables	(27)	8
Other liabilities	12	8
Net cash provided by operating activities	15	27
Cash flows from investing activities:		
Capital expenditures	(2)	(2)
Proceeds from sale of pipeline assets	—	24
Net cash provided by (used in) investing activities	(2)	22
Cash flows from financing activities:		
Payments of short-term debt	—	(18)
Dividends paid to noncontrolling interest	—	(6)
Net cash (used in) financing activities	—	(24)
Net increase in cash and cash equivalents and restricted cash	13	25
Effect of exchange rate changes on cash and cash equivalents and restricted cash	—	(1)
Cash and cash equivalents and restricted cash at beginning of period	35	118
Cash and cash equivalents and restricted cash at end of period	$ 48	$ 142

(1) Net of effect of translation

See accompanying notes to the consolidated financial statements.

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. The creditors of a holding entity of Eagle Super have appointed receivers, as described below, which has disenfranchised Shandong Ruyi Technology Group Co., Ltd ("Shandong Ruyi") from its control of Eagle Super.

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.

On February 21, 2022, The LYCRA Company (the "Company") received notice that an investor group who made loans to one of the Company's shareholders, Ruyi Textile and Fashion International Group Limited ("Ruyi Textile"), forming a Mezzanine Credit Facility for Ruyi Textile, on which Ruyi Textile defaulted. Mr. Edward Simon Middleton and Ms. Wing Sze Tiffany Wong of Alvarez and Marsal Asia Limited ("A&M") were appointed by the investor group as joint and several receivers and managers over Ruyi Textile's assets and over the shares of Ruyi Textile owned by its majority shareholder (the "Enforcement Action"). The Company has been notified of the participation in the Enforcement Action by holders of a majority of the aggregate principal amount of the Notes outstanding.

The Company innovates and produces fiber and technology solutions for the apparel and personal care industries. Headquartered in Wilmington, Delaware, the Company is recognized worldwide for its innovative products, technical expertise, and unmatched marketing support. The Company owns leading consumer and trade brands: LYCRA®, LYCRA HyFit®, LYCRA® T400®, COOLMAX®, THERMOLITE®, ELASPAN®, SUPPLEX®, and TACTEL®. The Company's legacy stretches back to 1958 with the invention of the original spandex yarn, LYCRA® fiber. Today, the 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 Company produces apparel fibers at six facilities worldwide. These facilities are located in North America, Europe, Asia, and South America. In addition, the Company has several fiber processing operations in various locations around the world.

As of the end of 2020, the Company exited its production of chemicals sold within the TERATHANE® product line. The decision followed a strategic review of the business and 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.

Principles of consolidation

The unaudited condensed interim consolidated financial statements include the financial statements of the 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 Company does not control and in which the 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 Company ownership portion of intercompany profit remaining in inventory at period end is eliminated.

Basis of presentation

The accompanying unaudited condensed interim 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 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 unaudited condensed interim consolidated financial statements.

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 Company establishes the estimate of current expected credit losses upon initial recognition of trade receivables and routinely assesses the estimate by analyzing each customer's outstanding balance, credit quality, tenor, historical experience, current and expected economic trends, and/or customer-specific knowledge such as the customer's creditworthiness and solvency. Judgment is required to assess the ultimate realization of the Company's accounts receivable. When the Company ultimately concludes that a trade receivable is uncollectible, the balance is charged against the allowance for doubtful accounts, resulting in receivables that are stated at amortized cost, net of any allowance for credit losses. Allowances for doubtful accounts expense is recorded in "Selling, general and administrative expenses" in the Consolidated Statements of Operations and Comprehensive Income (Loss).

Inventories

Inventories are stated at lower of cost or net realizable value. The 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 Company's financial instruments, which are carried at cost, including trade and non-trade accounts receivable, related party receivables, trade accounts payable, related party payables, and other current liabilities, approximate fair value because of their short maturities. The 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 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 (income) expense, net" in the Consolidated Statements of Operations and Comprehensive Income (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 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 Company's projections. Should an impairment of assets arise, the Company would be required to record a charge to operations that could be material to the period reported.

Asset retirement obligations

The 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 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 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 $0 and $5 at March 31, 2022 and December 31, 2021, respectively.

Goodwill

Goodwill represents the excess of costs over fair value of net assets of a business acquired. Goodwill is not amortized but is tested for impairment at least annually. The 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.

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 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 intangible assets has been impaired.

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 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 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 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 as an impairment charge.

Restructuring

The 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 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 to value the liability (discount rate), the rate of compensation increases, and health care cost trend rates. The 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 10 "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 income" 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 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 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 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 Company's monetary exposures primarily include balances denominated in euros, Chinese yuan, and Brazilian reais. Foreign-currency-denominated nonmonetary assets, such as inventories, prepaid expenses, property, plant and equipment, and intangible assets are remeasured into 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 (income) expense, net" in the Consolidated Statements of Operations and Comprehensive Income (Loss). Net exchange gains were $13 and $9 for the three months ended March 31, 2022 and 2021, respectively.

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 income" in the Consolidated Balance Sheets and in "Foreign currency translation adjustment" in the Consolidated Statements of Operations and Comprehensive Income (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 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 5 days to 120 days.

The 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 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 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 Company does not provide any warranties to its customers. The Company's contracts with customers do not include any material rights.

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

- Rebates are offered to certain customers as incentives to drive sales activities. The Company offers two types of rebate programs, namely direct and indirect rebate programs. Direct rebate programs run for approximately twelve months and provide price incentives to direct product customers based on the product and pricing incentives that are agreed to at inception of the contract. Indirect rebate programs are established with end-use garment companies and are designed to provide incentives to incorporate the Company's products into 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 $2 for each of the three months ended March 31, 2022 and 2021.

- Other sales deductions include customer claims and volume discounts. Once a claim is filed by the customer (within 60 days of the sale), the claim is reviewed and approved and an accrual is made as a reduction to "Net sales" with a corresponding credit to "Accrued and other current liabilities." The deduction to "Net sales" arising from discounts amounted to $1 for each of the three months ended March 31, 2022 and 2021. Deductions arising from customer claims were immaterial for both periods.

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 Income (Loss).

Advertising costs

Advertising costs of $2 for each of the three months ended March 31, 2022 and 2021, were expensed as incurred and are recorded in "Selling, general and administrative expenses" in the Consolidated Statements of Operations and Comprehensive Income (Loss).

Research and development

Research and development costs are expensed as incurred and were $7 for each of the three months ended March 31, 2022 and 2021.

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 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 Company. The 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 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.

Leases

At the inception of a contract, the Company assesses whether a contract is, or contains, a lease based on whether the contract conveys the right to control an identified asset for a period of time in exchange for consideration. Control over the use of the identified asset means the Company has both the right to obtain substantially all of the economic benefits from use of the asset and the right to direct the use of the asset throughout the period of use. The Company is mainly lessee in operating leases for real estate assets (such as industrial buildings, warehouses and offices) but also machinery, vehicles, and other equipment with lease terms of 10 years or less. In addition, the Company has land use leases with remaining lease terms up to 81 years. The Company's finance leases are primarily for vehicles and are not material. Certain lease agreements contain scheduled rent escalation clauses and others include rental payments adjusted periodically depending on an index or rate. Certain lease agreements require the Company to pay, insurance, common area maintenance, and other costs, collectively referred to as operating costs, in addition to base rent.

At the commencement date of a lease, the Company recognizes a right-of-use ("ROU") asset and a lease liability. The ROU asset is measured at an amount equal to the amount of the initial measurement of the lease liability adjusted for the reclassification of certain balance sheet amounts, such as deferred or prepaid rent and favorable lease intangibles, if applicable. The ROU asset is subsequently depreciated over the lease term and is subject to impairment.

The lease liability is initially measured at the present value of the future lease payments at the commencement date of the lease. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives paid or payable, variable lease payments that depend on an index or a rate, initially measured using the index or rate at the commencement date. ASC 842 requires a lessee to discount its unpaid lease payments using the interest rate implicit in the lease or, if that rate cannot be readily determined, its incremental borrowing rate ("IBR"). Therefore, the Company generally uses its IBR as the discount rate for the lease based on a portfolio approach. The Company's IBR is based on capital market or direct bank lending quoted rates.

The Company's lease contracts may include options to extend the lease following the initial term or terminate the lease prior to the end of the initial term. In most instances, at the commencement of the lease, the Company has determined that it is not reasonably certain to exercise either of these options; accordingly, these options are generally not considered in determining the initial lease term. At the renewal of an expiring lease, the Company reassesses options in the contract that it is reasonably certain to exercise in its measurement of lease term.

Variable lease payments associated with the Company's leases are recognized upon occurrence of the event, activity, or circumstance in the lease agreement on which those payments are assessed. Variable lease payments are presented in the Company's Consolidated Statements of Operations and Comprehensive Income (Loss) in the same line item as expense arising from fixed lease payments, such as Cost of goods sold and other operating expenses, Selling, general and administrative expenses, and Research and development expenses.

Key estimates and judgments include how the Company determines (1) whether a contract is or contains a lease and (2) the discount rate it uses to discount the future lease payments to present value. The Company made an accounting policy election not to separate non-lease components from lease components and instead to account for each separate lease component and the non-lease components associated with that lease component as a single lease component for all classes of underlying assets.

Leases with an initial term of 12 months or less ("short-term") are not recorded on the balance sheet. The Company recognizes lease expense for short-term leases on a straight-line basis over the lease term.

The Company is also a lessor of various buildings which are deemed to be operating leases. The Company recognizes operating lease payments as income on a straight-line basis or, if more representative of the pattern in which benefit from use of the underlying asset is diminished, another systematic basis.

Risks and uncertainties

Financial instruments that potentially subject the 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 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.

As of March 31, 2022, the Company employed approximately 2,800 employees. Of these employees, 48% were represented by labor unions, with 45% of those employees' union contracts expiring within one year.

The 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 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 standard

In December 2019, the FASB issued ASU 2019-12 "Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes" which reduces complexity by removing specific exceptions to general principles related to intraperiod tax allocations, ownership changes in foreign investments, and interim period income tax accounting for year-to-date losses that exceed anticipated losses. The new accounting rules also simplify accounting for franchise taxes that are partially based on income, transactions with a government that result in a step up in the tax basis of goodwill, separate financial statements of legal entities that are not subject to tax, and enacted changes in tax laws in interim periods. The guidance is effective for the Company in fiscal years beginning after December 15, 2021. The Company has adopted the guidance effective January 1, 2022. The adoption did not have any material impact in the consolidated financial statements and related footnote disclosures.

Accounting standards not yet adopted

The Company is currently evaluating any potential implications of the following proposed guidance changes on its consolidated financial statements and has not yet adopted these standards as of March 31, 2022.

In November 2021, the FASB issued ASU 2021-10 "ASU 2021-10 Government Assistance (Topic 832): Disclosure by Business Entities about Government Assistance" which requires entities to disclose information about certain types of government assistance they receive. This guidance is effective for fiscal years beginning after December 15, 2021. Early adoption is permitted. The Company is currently evaluating the guidance to determine the impact it may have on disclosure in fiscal year 2022.

(Amounts in millions of U.S. dollars)

In October 2021, the FASB issued ASU 2021-08 "Business Combination (Topic 805): Accounting for Contract Assets and Contract Liabilities from Contracts with Customers" which requires entities to apply ASC 606 to recognize and measure contract assets and contract liabilities from contracts with customers acquired in a business combination. This guidance is effective for fiscal years beginning after December 15, 2023, including interim periods therein. The Company will apply this new standard to any business combination transactions after 2023.

3. Receivables, net

	March 31, 2022	December 31, 2021
Trade accounts receivables	$ 164	$ 158
Receivables, non-trade [1]	25	25
Related party receivables [2]	3	3
	192	186
Less: allowance for doubtful accounts	(2)	(2)
	$ 190	$ 184

(1) 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.
(2) Refer to Note 14 "Significant customers and related party transactions" for additional detail regarding related party receivables.

4. Inventories, net

	March 31, 2022	December 31, 2021
Raw materials	$ 78	$ 88
Work in process	10	11
Finished goods	140	128
	228	227
Supplies	15	15
	243	242
Reserves	(3)	(3)
	$ 240	$ 239

(Amounts in millions of U.S. dollars)

5. Long-lived assets

Property, plant and equipment, net

	March 31, 2022	December 31, 2021
Land	$ 39	$ 39
Buildings, plants and improvements	103	103
Machinery and equipment	342	342
Furniture, fixtures and other	5	5
Construction in progress	10	8
	499	497
Less: accumulated depreciation	(182)	(168)
	$ 317	$ 329

Depreciation expense was $14 for each of the three months ended March 31, 2022 and 2021. The majority of depreciation expense is recorded in "Cost of goods sold and other operating expenses" in the Consolidated Statements of Operations and Comprehensive Income (Loss).

6. Other intangible assets, net

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

	March 31, 2022			December 31, 2021		
	Gross	Accumulated amortization	Net	Gross	Accumulated amortization	Net
Definite-lived intangible assets						
Developed technology	$ 93	$ (27)	$ 66	$ 93	$ (25)	$ 68
Customer relationships	26	(8)	18	26	(7)	19
	119	(35)	84	119	(32)	87
Indefinite-lived intangible assets						
Trade name portfolio	390	—	390	390	—	390
	$ 509	$ (35)	$ 474	$ 509	$ (32)	$ 477

The expense charged to operations for amortization of intangible assets was $3 for each of the three months ended March 31, 2022 and 2021, and is recorded in "Cost of goods sold and other operating expenses" in the Consolidated Statements of Operations and Comprehensive Income (Loss). The estimated intangible asset amortization expense for each of the next five years is approximately $12.

The remaining weighted-average amortization period for acquired definite-lived intangible assets is 7 years. The amortization period by major asset class is: developed technology (10 years), customer relationships (10 years).

(Amounts in millions of U.S. dollars)

7. Investments in equity affiliates

The Company owns interests in unconsolidated co-investment entities in Japan, Singapore, Taiwan and Foshan. The entities, Toray Opelontex Co., Ltd.; ISH-Toray Pte. Ltd.; and Shinpont Industry Inc., are 50% owned by the Company. The Company owns more than 50% of the Laika New Material (Foshan) Co. Ltd. ("Laika") entity, however it lacks control over the operations and assets, therefore this entity is also accounted for under the equity method. The equity method is used to account for entities that the Company does not control and in which the 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 four entities have a combined carrying value of $168 and $166 at March 31, 2022 and December 31, 2021, respectively. Refer to Note 14 "Significant customers and related party transactions – Laika Joint Venture" for more information.

8. Restructuring

Operating expense charges and income are included in "Restructuring (income) expense" in the Consolidated Statements of Operations and Comprehensive Income (Loss), and restructuring balances are included in "Accrued and other current liabilities" in the Consolidated Balance Sheets.

	Contract Obligations
Balance at December 31, 2021	$ 1
Operating expense	7
Cash payments	—
Balance at March 31, 2022	$ 8

For the three months ended March 31, 2022, the restructuring expense includes $7 legal and advisory costs associated with the Enforcement Action, partially offset by $(3) benefit from the extinguishment of remaining asset retirement obligations and related termination of a ground lease at La Porte. Substantially all of the $8 restructuring accrual for contract obligations will be paid through the end of 2022.

For the three months ended March 31, 2021, the Company recognized a $23 net benefit on the sale of pipeline assets at the La Porte facility and released an associated $4 asset retirement obligation on those assets from "Other liabilities" in the Consolidated Balance Sheets. Additionally, the La Porte site negotiated a $1 reduction to the site's contract obligations.

9. Indebtedness

Current debt

	March 31, 2022	December 31, 2021
Revolving Credit Facility	$ 50	$ 50

In May 2018, the 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

(Amounts in millions of U.S. dollars)

January 31, 2019 transaction completion date. The total commitments of the RCF were $100 at March 31, 2022. 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 March 31, 2022, the outstanding cash borrowings on the RCF totaled $50. As of the testing date, the Company's net leverage ratio was in compliance with the financial covenant. As of March 31, 2022, the RCF would have matured in November 2022, but the Company was recently able to negotiate a revision to extend the maturity until February 2023. Refer to Note 17 "Subsequent events" for more information.

Pursuant to terms of the RCF, the 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 Company has not finalized the security pledges covering collateral held by certain of our subsidiaries. During fiscal 2019 and continuing into 2021, the facility agent under the RCF notified the Company that it considers these open security issues to be defaults under the RCF. The 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. The Company has full utilization of the RCF, however, if the claimed default was pursued successfully, the Company's access to the RCF could be restricted and the lenders could declare all amounts due and payable.

The Company had outstanding bank guarantees, surety bonds, and letters of credit of $12 and $10 at March 31, 2022 and December 31, 2021, respectively. The impact of the availability of the RCF were $0 at March 31, 2022 and December 31, 2021. 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, 2020	$ 995	$ (30)	$ 965
Amortization of deferred financing costs		8	8
FX remeasurement on Euro Notes	(21)	—	(21)
Balance at December 31, 2021	$ 974	$ (22)	$ 952
Amortization of deferred financing costs		2	2
FX remeasurement on Euro Notes	(10)	—	(10)
Balance at March 31, 2022	$ 964	$ (20)	$ 944

Interest payments are due on May 1 and November 1 of each year. At any time, and from time to time, the Notes are redeemable at the Company's option. These redemptions are subject to various premiums depending on the timing of early redemption ranging from 1.344% to 0% above par for the Euro Notes and 5.625% to 0% above par for the Dollar Notes plus accrued and unpaid interest. As of May 1, 2021, all other early redemption rights for the Notes have expired.

(Amounts in millions of U.S. dollars)

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 Company received notification from a third party asserting that direct or indirect shareholders of the 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 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. On February 21, 2022, in connection with the Enforcement Action, waiver letters have been delivered to the Trustee by a majority in aggregate principal amount of the Notes, waiving any change in control repurchase obligations and certain potential cross-defaults related to the Indenture in respect of such events.

The 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 Company's long-term debt in the Consolidated Balance Sheets and amount to $20, net of FX remeasurement, at March 31, 2022. The amortization of the financing costs, which was $2 for each of the three months ended March 31, 2022 and 2021, is presented in "Interest expense, net" in the Consolidated Statements of Operations and Comprehensive Income (Loss).

10. Pension and other post-retirement benefit liabilities

In 2022, the Company expects to contribute approximately $1 to pension plans and $0 to other post-retirement benefit plans.

In addition to the pension and other post-retirement plans, the Company sponsors a defined contribution 401(k) plan for employees primarily in the U.S. in which the Company is a participating employer as well as defined contribution plans outside the U.S. The Company has contributed $2 to these plans for the three months ended March 31, 2022 and expects to contribute approximately $8 to these plans for the remainder of 2022.

11. Share-based compensation

	Three months ended March 31,			
	2022		**2021**	
SAR expense	$	1	$	—
Income tax benefit	$	—	$	—

	Three months ended March 31, 2022		
Unrecognized non-cash share-based compensation			
Performance-based SAR	$	—	
Time-based SAR	$	1	<1 year

(Amounts in millions of U.S. dollars)

12. Interest expense, net

	Three months ended March 31,	
	2022	**2021**
Interest charges	$ 17	$ 17
Amortization of financing fees [(1)]	2	2
Other interest expense	—	1
	$ 19	$ 20

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

13. Income taxes

The Company recorded income tax expense of $3 and $12 for the three months ended March 31, 2022 and 2021, respectively. The effective tax rate differs 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 different than the Netherlands' statutory rate.

The Company's deferred tax assets are primarily comprised of net operating loss carryforwards and differences between the book values of assets and tax values of acquired business assets. 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. As a result, valuation allowances of $233 and $229 have been provided for the estimated net deferred tax assets of approximately $193 and $189 at March 31, 2022 and December 31, 2021, respectively. There were no tax related interest or penalties accrued by the Company as of March 31, 2022.

14. 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., Shinpont Industry, Inc. and Laika are considered related parties.

Significant customers

No customer accounted for greater than 10% of total sales for each of the three ended March 31, 2022 and 2021.

Purchases from related parties

The Company has an agreement to purchase methanol and nylon 6,6 polymer from Koch, spandex fiber from Toray Opelontex Co. Ltd., chemicals from Itochu, and LYCRA® T400® fiber from Shinpont Industry, Inc. The 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 Income (Loss). Purchases of raw materials and services from related parties were $13 and $15 for the three months ended March 31, 2022 and 2021, respectively. Related party payable balances reflected in "Payables" in the Consolidated Balance Sheets are $21 and $20 at March 31, 2022 and

December 31, 2021, respectively, and include non-trade payables of $1 for the Brazilian VAT credits related to pre-Acquisition balances at March 31, 2022 and December 31, 2021.

Sales to related parties

The Company provides goods and services to Toray Opelontex Co. Ltd., and Itochu Corporation subsidiaries and affiliates. All sales activity between the Company and related parties are included in "Sales to related parties" in the Consolidated Statements of Operations and Comprehensive Income (Loss). Sales of finished goods and services to related parties were $7 and $5 for the three months ended March 31, 2022 and 2021, respectively. Related party receivable balances reflected in "Receivables, net" in the Consolidated Balance Sheets are $3 at March 31, 2022 and December 31, 2021.

Laika Joint Venture

On August 3, 2021, the Company established a majority-owned joint venture, Laika, with a related party minority partner, Jining Ruyi Wanzhong Venture Capital Management Partnership ("Wanzhong"), for the purpose of acquiring additional spandex manufacturing capacity from Jining Ruyi High-tech Fiber Material Co., Ltd in China. Laika was initially capitalized with cash contributions of $30 from the Company and $27 from Wanzhong, with a commitment from the Company to make an additional contribution of $20 on or before 2054 which is an outstanding equity commitment as of March 31, 2022. Subsequent to our initial capitalization, the formation documents for Laika were amended to effect capital increase requirements in Laika that would result in approximately $80 additional capital contribution by the Company in the form of contributed property, plant and equipment from our manufacturing facility in Foshan (Subsequent Contribution Requirements). The Subsequent Contribution Requirements have not been made by the Company and are currently subject to an on-going dispute between the Company and our joint venture partner. Due to our inability to control Laika and Laika management's actions to deny the Company with sufficient access to Laika's books and records, the Company recorded the equity method investment of $30 on the consolidated balance sheet as of December 31, 2021 and the Company's share of Laika's net income of $0 based on the best information available to the Company. The amounts recorded and disclosure by the Company could be subject to change as additional information becomes available to the Company and as on-going legal disputes are resolved. Refer to Note 17 "Subsequent Events" for more information.

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"), related to the consideration paid and certain fees and expenses incurred by Issuers in connection with the Acquisition. A similar letter was entered into in connection with the Taiwan Acquisition. These provided a commitment to pay or reimburse certain amounts paid by the Issuers.

The recent appointment of receivers over the assets of, and shares held by the majority shareholder of, Ruyi Textile and Fashion International Group Limited, which has disenfranchised the Parent and Jining Ruyi from the Company, could make payment and/or recovery under these commitment letters unlikely.

(Amounts in millions of U.S. dollars)

Promissory Note

As part of the Acquisition, a side letter to the Acquisition Agreement allowed for payment to INVISTA under a Promissory Note for the purpose of satisfying a working capital closing adjustment. At December 31, 2020, the outstanding balance of principal and accrued interest was $19. The full amount was settled on January 8, 2021.

15. Leases

The components of lease cost for the three months ended March 31, 2022 were as follows:

	Three months ended March 31, 2022	
Operating lease cost [1]	$	2
Finance lease cost		—
Short-term lease cost		—
Variable lease cost		—
Total	$	2

[1] Rent expense on operating leases for the three months ended March 31, 2021 was $2.

Operating and finance lease liabilities cash flow information for the three months ended March 31, 2022 is as follows:

	Three months ended March 31, 2022	
Cash paid for amounts included in the measurement of finance lease liabilities	$	—
Cash paid for amounts included in the measurement of operating lease liabilities	$	2

Supplemental balance sheet information related to leases as of March 31, 2022 is as follows:

	March 31, 2022
Weighted average remaining lease term	17 years
Weighted average discount rate	3.34%

As of March 31, 2022, future maturities of lease liabilities are as follows,

	March 31, 2022	
Apr 2022 - Mar 2023	$	5
Apr 2023 - Mar 2024		5
Apr 2024 - Mar 2025		3
Apr 2025 - Mar 2026		3
Apr 2026 - Mar 2027		3
Thereafter		25
Total lease payments		44
Less: imputed interest		(10)
Total lease liabilities		34
Less: current obligations		(4)
Long-term lease obligations	$	30

(Amounts in millions of U.S. dollars)

As of March 31, 2021, future minimum leases commitments related to long-term operating leases were as follows:

	March 31, 2021
2021 remaining	$ 6
2022	5
2023	4
2024	4
2025	4

The Company has one lease as of March 31, 2022, that has not yet commenced but will create significant rights and obligations which are expected to begin in March 2023. The construction of the asset will be located in Singapore and is the responsibility of an unaffiliated third party ("project company"). Upon completion of the construction, the Company will make annual payments of $1 to the project company for seven years.

16. Obligations, and contingent liabilities

Future minimum purchase obligations are as follows:

Maturity period	Purchase obligations
2022 remaining (1)	$ 47
2023	2
2024	—
2025	—
2026	—

(1) Includes $20 for an unfunded Laika joint venture contribution and $17 legal and other fees for the Enforcement Action. Refer to Note 14 "Significant customers and related party transactions" for additional detail regarding the contribution.

17. Subsequent events

The Company has completed an evaluation of all subsequent events through May 27, 2022, the date its unaudited condensed interim consolidated financial statements were available to be issued, and concluded that no subsequent events occurred that required recognition other than those described below.

In connection with certain previously reported enforcement proceedings commenced by certain creditors of certain shareholding entities of the Company in February 2022 (the "Enforcement Proceedings"), a change of control occurred under and for the purposes of the RCF which gave each of Barclays Bank PLC and JPMorgan Chase Bank, N.A. (the "RCF Lenders") the right, but not the obligation, to cancel the RCF as to their commitments. Pursuant to an amendment agreement dated March 23, 2022, the RCF Lenders agreed to amend the RCF to extend the period of time allowed for the RCF Lenders to consider whether to exercise their cancellation rights under the RCF.

On April 25, 2022, the Company and RCF Lenders reached an agreement to permit the continued availability of the facility. The RCF has been amended by a further amendment and waiver agreement which provides for, among others things: (i) a revision to the maturity date of the RCF until February 1, 2023 ("Maturity Date");

(ii) amendment of the mandatory prepayment provisions to carve the Enforcement Proceedings out of the existing change of control regime; (iii) amendment of the financial covenant, and related testing and reporting provisions to replace the springing consolidated net leverage ratio covenant with a minimum liquidity covenant tested on a monthly basis; and (iv) certain amendments and waivers with respect to certain actions in connection with the Enforcement Proceedings. The amendment and waiver agreement does not modify the interest rate under the RCF and contains other customary terms and conditions.

In connection with the Enforcement Action and Enforcement Proceedings, the Company is engaged in various legal actions, including challenges to the appointment of the receivers and actions by the Company to resolve disputes over the Laika joint venture and related commitments.

Also resulting from the Enforcement Proceedings is an increase of $15 to the 7.50% Dollar Notes due on May 2025, which is anticipated to take effect in June 2022, and the payment of additional legal and other fees, estimated to be $17, by the end of 2022. In addition, a non-interesting bearing obligation of $19 is anticipated to be entered into in June 2022, the payment of which will be contingent on the occurrence of either (i) an "exit" (as defined in the relevant instrument), (ii) a refinancing or repayment of the 7.50% Dollar Notes, (iii) an insolvency event (as defined in the relevant instrument) or (iv) May 1, 2025.

Additionally, in response to the military conflict between Russia and Ukraine, the United States, the European Union, and other North Atlantic Treaty Organization member states, as well as non-member states, have announced targeted economic sanctions on Russia, certain Russian citizens and enterprises. The continuation of the conflict may trigger a series of additional economic and other sanctions enacted by the United States, the European Union, and other North Atlantic Treaty Organization member states, and other countries. The potential impact of bans, sanction programs, and boycotts on our business is uncertain at the current time due to the fluid nature of the military conflict as it is unfolding. The potential impacts include supply chain and logistics disruptions, financial impacts including disruptions to the execution of customer payment transactions with certain Russian institutions, volatility in foreign exchange rates and interest rates, inflationary pressures on raw materials and energy, heightened cybersecurity threats and other restrictions. The Company does not have any direct exposures that would be material to the consolidated financial statements.

In addition, the COVID-19 pandemic has resulted in, and could continue to result in, industry-wide global supply chain challenges, including manufacturing, transportation and logistics. We purchase certain products and key components from a limited number of sources, and depend on the supply chain, including freight, to receive components, transport finished goods and deliver our products across the world. While we proactively manage our supply chain, we expect to continue to be impacted by higher logistics and component costs, prolonged delays, and challenges with component availability. Most recently, Shanghai, China, began a lockdown in late March 2022 due to another outbreak of COVID-19, resulting in a lockdown of the city, closures of ports and airports, and disruption of commercial activities, further constraining our supply chain. If the Shanghai lockdown is extended to other places where our suppliers and partners are located, such measures, depending on their duration, could cause additional negative impact on our business and results of operations.

We currently expect that the COVID-19 outbreak will continue to impact our financial performance further into 2022, particularly as it pertains to the recent resurgence of COVID-19 in China. 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.