



**Kraton Performance Polymers, Inc.
Third Quarter 2010 Earnings Conference Call**

November 4, 2010

Forward-Looking Statement Disclaimer



This presentation may include “forward-looking statements” that reflect our plans, beliefs, expectations and current views with respect to, among other things, future events and financial performance. Forward-looking statements are often characterized by the use of words such as “believes,” “estimates,” “expects,” “projects,” “may,” “intends,” “plans” or “anticipates,” or by discussions of strategy, plans or intentions. All forward-looking statements in this presentation are made based on management’s current expectations and estimates, which involve risks, uncertainties and other factors that could cause actual results to differ materially from those expressed in forward-looking statements. Readers are cautioned not to place undue reliance on forward-looking statements. These risks and uncertainties are more fully described in “Part I. Item 1A. Risk Factors” contained in our Annual Report on 10-K, as filed with the Securities and Exchange Commission and as subsequently updated in our Quarterly Reports on Form 10-Q, and include risks related to: conditions in the global economy and capital markets; our reliance on LyondellBasell Industries for the provision of significant operating and other services; the failure of our raw materials suppliers to perform their obligations under long-term supply agreements, or our inability to replace or renew these agreements when they expire; limitations in the availability of raw materials we need to produce our products in the amounts or at the prices necessary for us to effectively and profitably operate our business; competition in our end-use markets, by other producers of SBCs and by producers of products that can be substituted for our products; our ability to produce and commercialize technological innovations; our ability to protect our intellectual property, on which our business is substantially dependent; infringement of our products on the intellectual property rights of others; seasonality in our Paving and Roofing business; financial and operating constraints related to our substantial level of indebtedness; product liability claims and other lawsuits arising from environmental damage or personal injuries associated with chemical manufacturing; political and economic risks in the various countries in which we operate; the inherently hazardous nature of chemical manufacturing; health, safety and environmental laws, including laws that govern our employees’ exposure to chemicals deemed harmful to humans; regulation of our customers, which could affect the demand for our products or result in increased compliance costs; international trade, export control, antitrust, zoning and occupancy and labor and employment laws that could require us to modify our current business practices and incur increased costs; our relationship with our employees; loss of key personnel or our inability to attract and retain new qualified personnel; fluctuations in currency exchange rates ; the fact that we do not enter into long-term contracts with our customers; a decrease in the fair value of our pension assets, which could require us to materially increase future funding of the pension plan; and concentration of ownership among our principal stockholders, which may prevent new investors from influencing significant corporate decisions. We assume no obligation to update such information. Further information concerning issues that could materially affect financial performance related to forward looking statements can be found in our periodic filings with the Securities and Exchange Commission.

GAAP Disclaimer



This presentation includes the use of both GAAP (generally accepted accounting principles) and non-GAAP financial measures. The non-GAAP financial measures are EBITDA and Adjusted EBITDA. The most directly comparable GAAP financial measure is net income/loss. A reconciliation of the non-GAAP financial measures used in this presentation to the most directly comparable GAAP measure is included herein. We consider EBITDA and Adjusted EBITDA important supplemental measures of our performance and believe they are frequently used by investors and other interested parties in the evaluation of companies in our industry. EBITDA and Adjusted EBITDA have limitations as analytical tools and should not be considered in isolation or as a substitute for analysis of our results under GAAP in the United States.

Earnings Growth

- Net Income was \$28 million, up \$6 million from Q3 2009
- Pace of raw material price increases moderated from second quarter 2010
- Adjusted EBITDA of \$55 million
- TTM Adjusted EBITDA margin on sales revenue of 16%

Innovation-led Top-line Growth

- TTM vitality index 13%
- Good momentum in PVC alternatives for wire & cable and medical applications
- Pipeline includes Soft Skins in automotive applications, Cariflex™ IR products and advances in protective films

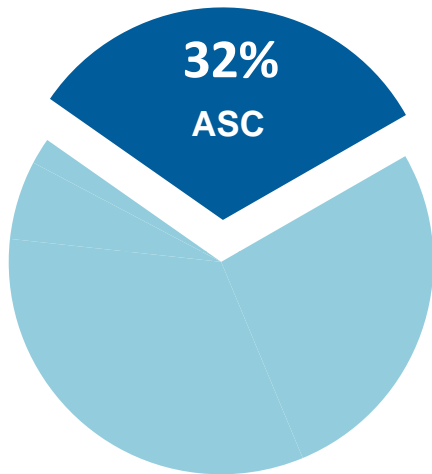
Capital Investment

- Realizing benefits from ERP implementation
- IR and IRL projects continue on plan; operational mid-2011
- Belpre DCS project progressing well
- Actively engaged in evaluation of alternatives for additional HSBC capacity

Adhesives, Sealants and Coatings End Use Review

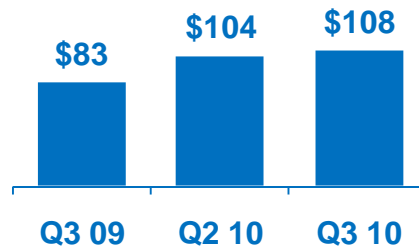


TTM Revenue Profile

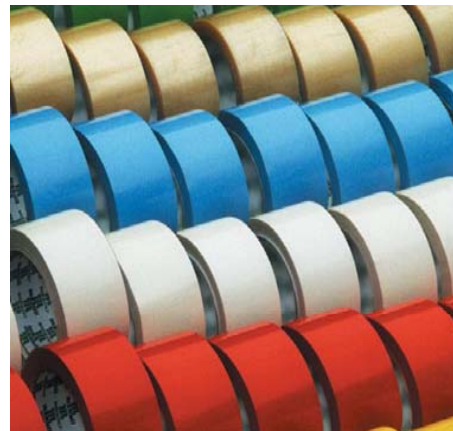
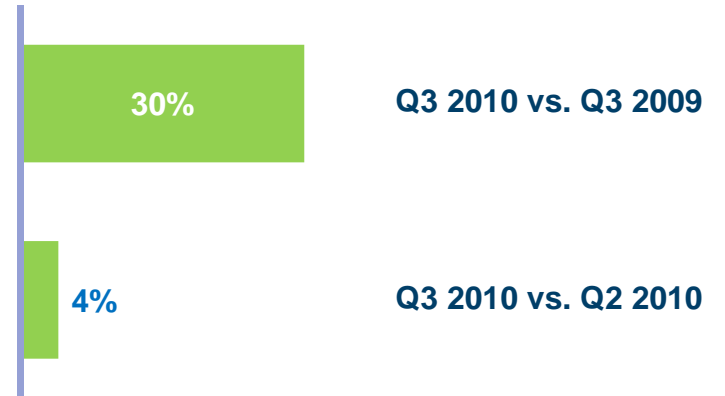


End Use Revenue

US \$ in millions



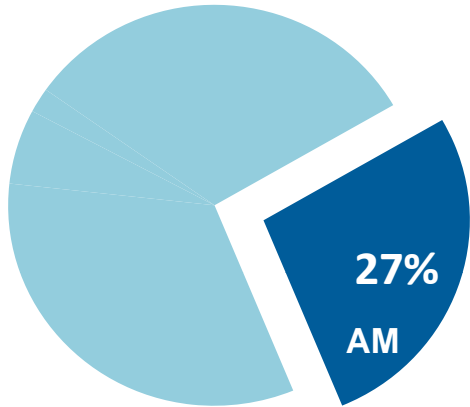
Change in Sales Revenue



Advanced Materials End Use Review



TTM Revenue Profile

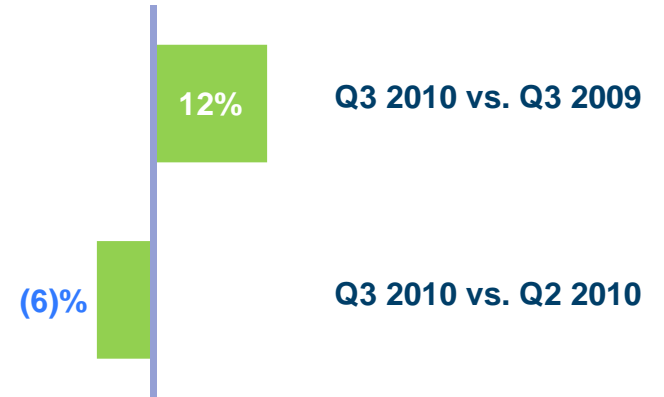


End Use Revenue

US \$ in millions



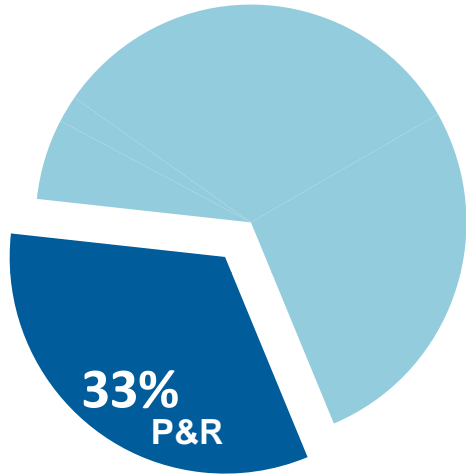
Change in Sales Revenue



Paving and Roofing End-Use Review

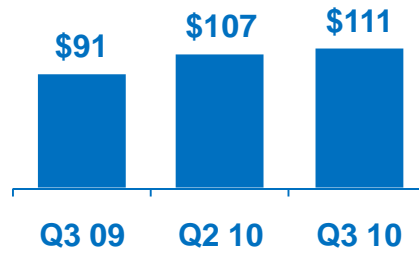


TTM Revenue Profile

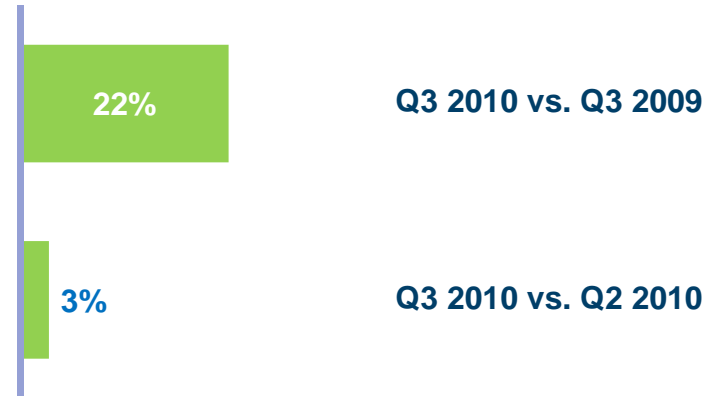


End Use Revenue

US \$ in millions



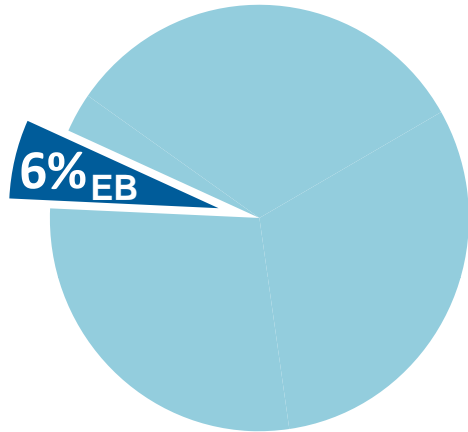
Change in Sales Revenue



Emerging Businesses End Use Review

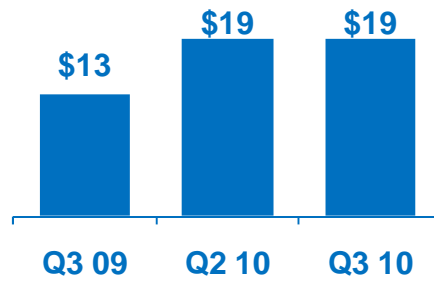


TTM Revenue Profile



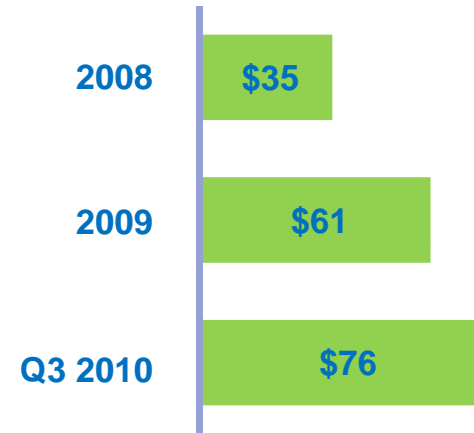
End Use Revenue

US \$ in millions



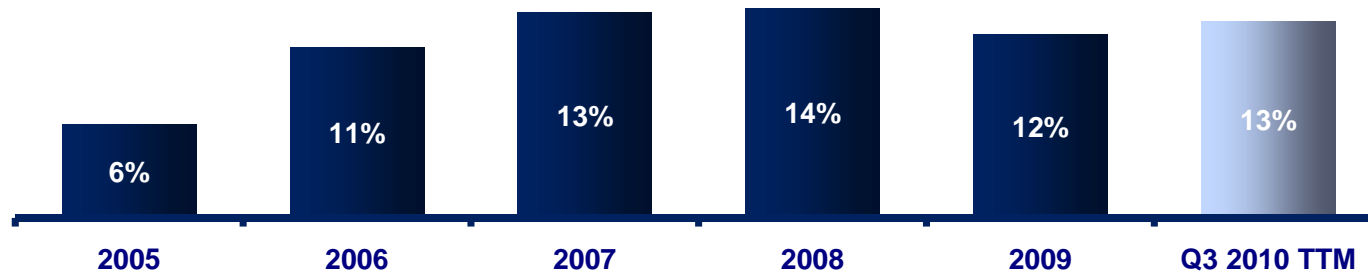
TTM Sales Revenue

US \$ in millions



Vitality Index

Goal - 20% of revenue from innovation

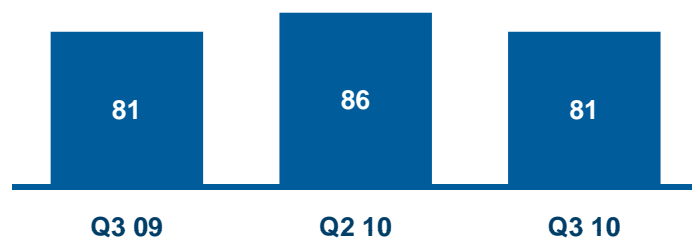


- Strong recovery in automotive and transparent applications
- Growth in alternatives for PVC in applications such as wire & cable and medical applications
- Innovation pipeline includes Soft Skins for automotive interior applications, Cariflex™ IR products, elastic nonwovens, advances in protective films, and Nexar™ membrane technology

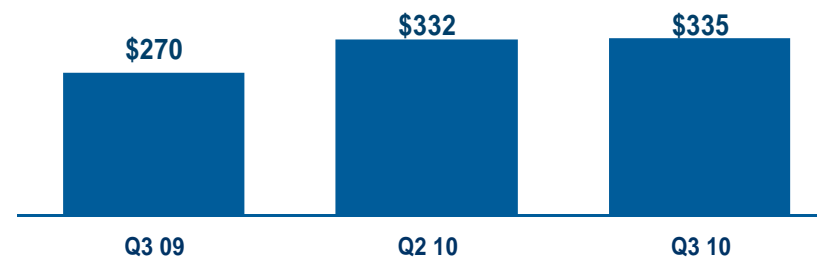
Selected Financial Trends



Volume (kT)

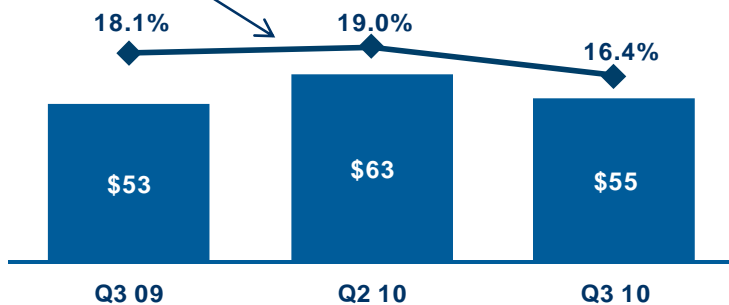


Sales Revenue⁽¹⁾
(US \$ in Millions)



Adjusted EBITDA⁽²⁾
(US \$ in Millions)

Adjusted EBITDA Margin



EBITDA to Adjusted EBITDA⁽²⁾ Walk
(US \$ in Millions)

	<u>Q3 09</u>	<u>Q2 10</u>	<u>Q3 10</u>
EBITDA	\$ 44.7	\$ 61.9	\$ 52.0
Management fees and expenses	0.5	---	---
Restructuring and related charges	6.4	0.7	1.9
Other non-cash expenses	<u>1.5</u>	<u>0.4</u>	<u>1.0</u>
Adjusted EBITDA ⁽²⁾	<u>\$ 53.1</u>	<u>\$ 63.0</u>	<u>\$ 54.9</u>

(1) Excludes by-product revenue

(2) Adjusted EBITDA is GAAP EBITDA excluding management fees, restructuring and related charges, non-cash expenses, and the gain on extinguishment of debt

Q3 2010 Financial Overview



US \$ in thousands except per share data

	Three months Ended <u>9/30/2009</u>	Three months Ended <u>6/30/2010</u>	Three months Ended <u>9/30/2010</u>
Sales Volume (kT)	81	86	81
Total Operating Revenues	\$ 288,518	\$ 332,086	\$ 335,442
Cost of Goods Sold	<u>218,549</u>	<u>242,973</u>	<u>252,561</u>
Gross Profit	69,969	89,113	82,881
Operating expenses			
Research and Development	5,075	5,572	6,125
Selling, General and Administrative	20,282	21,772	24,819
Depreciation and Amortization of Identifiable Intangibles	16,477	11,969	13,027
Gain on Extinguishment of Debt	-	-	-
Equity in Earnings of Unconsolidated Joint Venture	129	162	81
Interest Expense, net	<u>8,044</u>	<u>6,272</u>	<u>6,127</u>
Income Before Income Taxes	20,220	43,690	32,864
Income Tax Expense	<u>(1,645)</u>	<u>5,095</u>	<u>4,828</u>
Net Income	<u>\$ 21,865</u>	<u>\$ 38,595</u>	<u>\$ 28,036</u>
Earnings (Loss) per Common Share - Diluted	\$ 1.12	\$ 1.24	\$ 0.88
Weighted Average Shares Outstanding – Diluted	19,449	31,244	31,590
Adjusted EBITDA⁽¹⁾	\$ 53,126	\$ 63,025	\$ 54,947

⁽¹⁾ Adjusted EBITDA is GAAP EBITDA excluding management fees, restructuring and related charges, non-cash expenses, and the gain on extinguishment of debt

Q3 2010 Operating Revenue Walk

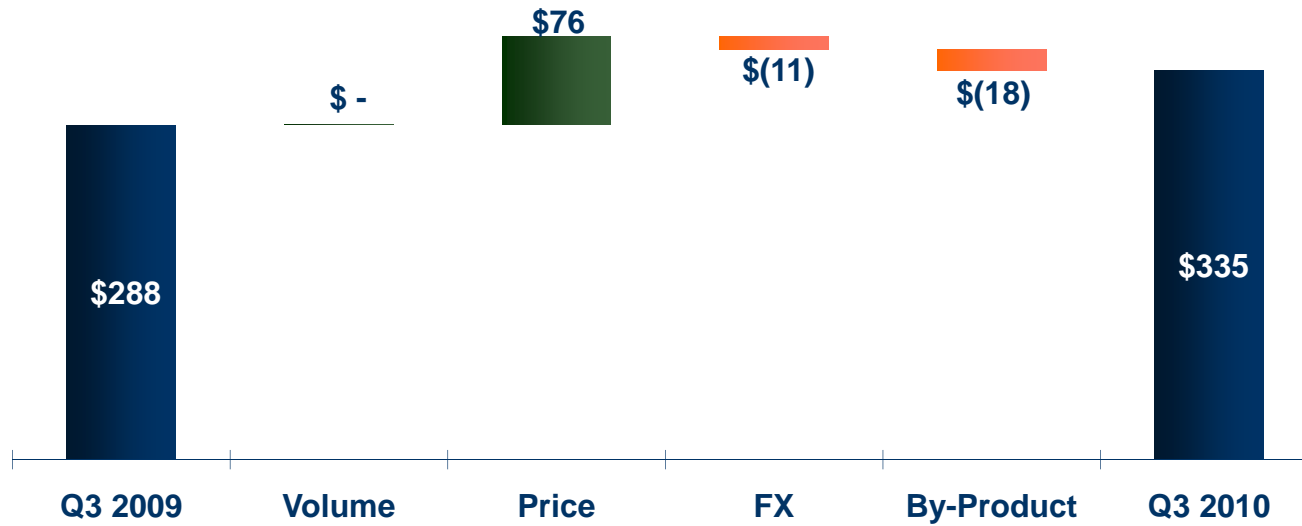


US \$ in millions

Q3 2010 vs. Q2 2010



Q3 2010 vs. Q3 2009



Q3 2010 Adjusted EBITDA⁽¹⁾ Walk



US \$ in millions

Q3 2010 vs. Q2 2010



Q3 2010 vs. Q3 2009



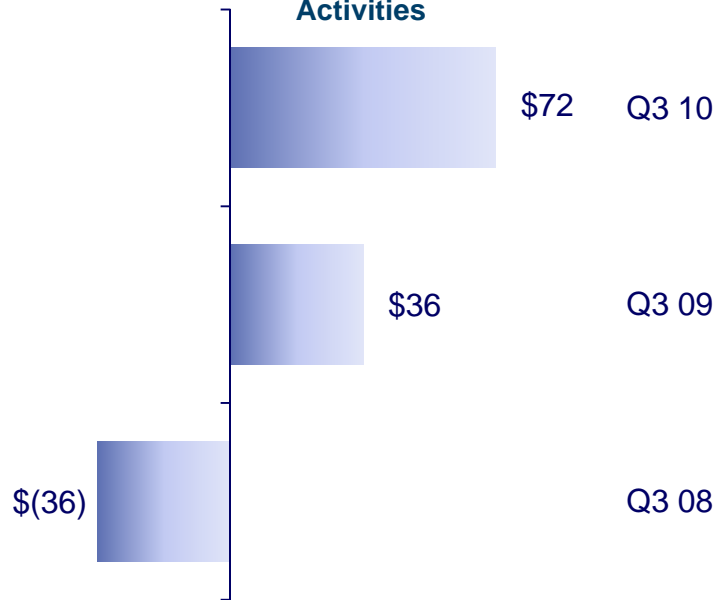
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Cash Flow and Balance Sheet

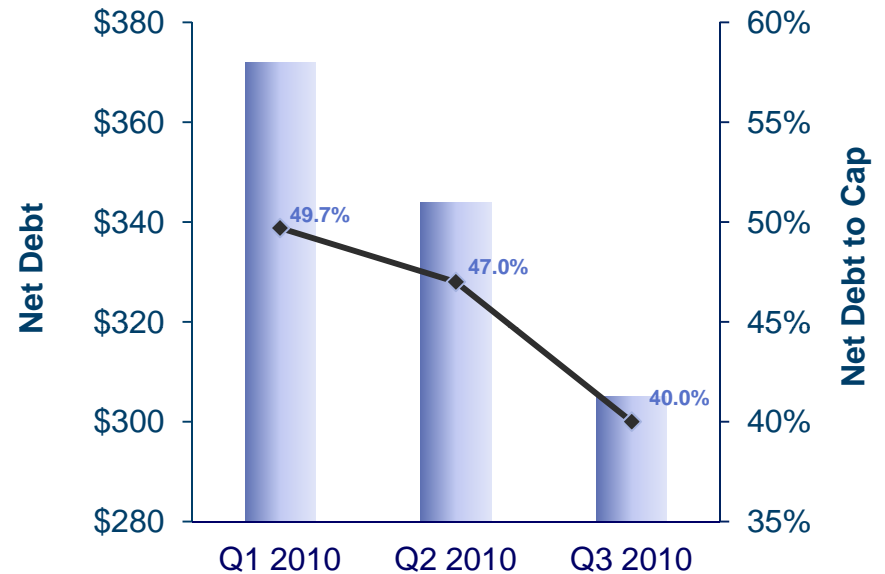


US \$ in millions

Quarterly Net Cash Provided by Operating Activities



Net Debt ⁽¹⁾ and Net Debt to Capitalization



- Q3 2010 reflects a continued release of cash from Q2 2010, following a seasonal build in Q1.
- Working capital of 29% of TTM revenue, currently expected to return to more normal 23% to 25% by year-end.

- Cash at quarter end of \$78 million.
- Net Debt-to-Capitalization ratio of 40.0% at quarter end.
- TTM Adjusted EBITDA to Net Debt was 1.56x at 9/30/10.

(1) Net debt is equal to Long-term debt, less Cash and Cash equivalents

Selected 2010 Estimates



Working capital (excluding cash) as a % of revenue	~25%
Capital spending	\$50 to \$55 million
Interest expense	\$24 to \$25 million
Cash interest	\$23 to \$24 million
Cash pension contributions	\$4 to \$5 million
Restructuring charges	\$5 to \$6 million
Cash restructuring	\$14 to \$15 million
Depreciation and amortization	\$48 to \$50 million
Book tax rate	13% to 16%
Cash tax rate	10% to 13%



Appendix

November 4, 2010

Reconciliation of Net Income/(Loss) to EBITDA and Adjusted EBITDA



US \$ in thousands

	Three months Ended 9/30/2009	Three months Ended 6/30/2010	Three months Ended 9/30/2010
Net Income (Loss)	\$ 21,865	\$ 38,595	\$ 28,036
Add(deduct):			
Interest expense, net	8,045	6,272	6,127
Income tax expense	(1,645)	5,095	4,828
Depreciation and amortization expenses	16,476	11,969	13,027
EBITDA ⁽¹⁾	<u>\$ 44,741</u>	<u>\$ 61,931</u>	<u>\$ 52,018</u>
EBITDA ⁽¹⁾	\$ 44,741	\$ 61,931	\$ 52,018
Add(deduct):			
Management fees and expenses	500	-	-
Restructuring and related charges	6,427	655	1,864
Other non-cash expenses	1,457	439	1,065
Adjusted EBITDA ⁽²⁾	<u>\$ 53,125</u>	<u>\$ 63,025</u>	<u>\$ 54,947</u>
Restructuring and related detail:			
Cost of goods sold	\$ 6,107	\$ -	\$ -
Selling, general and administrative	320	655	1,864
Total restructuring and related charges	<u>\$ 320</u>	<u>\$ 655</u>	<u>\$ 1,864</u>

(1) The EBITDA measure is used by management to evaluate operating performance. Management believes that EBITDA is useful to investors because it is frequently used by investors and other interested parties in the evaluation of companies in our industry. EBITDA is not a recognized term under GAAP and does not purport to be an alternative to net income (loss) as an indicator of operating performance or to cash flows from operating activities as a measure of liquidity. Since not all companies use identical calculations, this presentation of EBITDA may not be comparable to other similarly titled measures of other companies. Additionally, EBITDA is not intended to be a measure of free cash flow for management's discretionary use, as it does not consider certain cash requirements such as interest payments, tax payments and debt service requirements.

(2) Adjusted EBITDA is EBITDA excluding management fees, restructuring and related charges, non-cash expenses, and the gain on extinguishment of debt.



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