



Kraton Performance Polymers, Inc.

Fourth Quarter 2014 Earnings Conference Call

February 25, 2015

## Forward Looking Statement Disclaimer

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This presentation includes 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 “outlook,” “believes,” “estimates,” “expects,” “projects,” “may,” “intends,” “plans” or “anticipates,” or by discussions of strategy, plans or intentions, including the matters described under the caption “Selected 2015 Estimates.”

All forward-looking statements in this presentation are made based on management's current expectations and estimates, which involve known and unknown risks, uncertainties and other important factors that could cause actual results to differ materially from those expressed in forward-looking statements. These risks and uncertainties are more fully described in our latest Annual Report on Form 10-K, including but not limited to “Part I, Item 1A. Risk Factors” and “Part I, Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations” therein, and in our other filings with the Securities and Exchange Commission, and include, but are not limited to, risks related to: our expectations regarding the start-up of our semi-works facility in Belpre, Ohio and its role in future innovation programs; conditions in the global economy and capital markets; declines in raw material costs; 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, from other producers of SBCs and from 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; hazards inherent to the chemical manufacturing business; other risks, factors and uncertainties described in this presentation and our other reports and documents; and other factors of which we are currently unaware or deem immaterial. Readers are cautioned not to place undue reliance on forward-looking statements. Forward-looking statements speak only as of the date they are made, and we assume no obligation to update such information in light of new information or future events.

# GAAP Disclaimer

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This presentation includes the use of both GAAP and non-GAAP financial measures. The non-GAAP financial measures are EBITDA, Adjusted EBITDA, Adjusted Gross Profit and Adjusted Net Income attributable to Kraton (or earnings per share). Tables included in this presentation and our earnings release reconcile each of these non-GAAP financial measures with the most directly comparable GAAP financial measure. For additional information on the impact of the spread between the FIFO basis of accounting and estimated current replacement cost (“ECRC”), see Management’s Discussion and Analysis of Financial Condition and Results of Operations in our Annual Report on Form 10-K for the fiscal year ended December 31, 2014.

We consider these non-GAAP financial measures to be important supplemental measures of our performance and believe they are frequently used by investors, securities analysts and other interested parties in the evaluation of our performance including period-to-period comparisons and/or that of other companies in our industry. Further, management uses these measures to evaluate operating performance, and our incentive compensation plan bases incentive compensation payments on our Adjusted EBITDA performance, along with other factors. These non-GAAP financial measures have limitations as analytical tools and in some cases can vary substantially from other measures of our performance. You should not consider them in isolation, or as a substitute for analysis of our results under GAAP in the United States. For EBITDA, these limitations include: EBITDA does not reflect the significant interest expense on our debt; EBITDA does not reflect the significant depreciation and amortization expense associated with our long-lived assets; EBITDA included herein should not be used for purposes of assessing compliance or non-compliance with financial covenants under our debt agreements. The calculation of EBITDA in our debt agreements includes adjustments, such as extraordinary, non-recurring or one-time charges, proforma cost savings, certain non-cash items, turnaround costs, and other items included in the definition of EBITDA in our debt agreements; and other companies in our industry may calculate EBITDA differently than we do, limiting its usefulness as a comparative measure. As an analytical tool, Adjusted EBITDA is subject to all the limitations applicable to EBITDA. We prepare Adjusted EBITDA by eliminating from EBITDA the impact of a number of items we do not consider indicative of our on-going performance, including the spread between FIFO and ECRC, but you should be aware that in the future we may incur expenses similar to the adjustments in this presentation. Our presentation of Adjusted EBITDA should not be construed as an inference that our future results will be unaffected by unusual or non-recurring items. In addition, due to volatility in raw material prices, Adjusted EBITDA may, and often does, vary substantially from EBITDA and other performance measures, including net income calculated in accordance with U.S. GAAP; and Adjusted EBITDA may, and often will, vary significantly from EBITDA calculations under the terms of our debt agreements and should not be used for assessing compliance or non-compliance with financial covenants under our debt agreements. Because of these and other limitations, EBITDA and Adjusted EBITDA should not be considered as a measure of discretionary cash available to us to invest in the growth of our business. As a measure of our performance, Adjusted Gross Profit is limited because it often will vary substantially from gross profit calculated in accordance with U.S. GAAP due to volatility in raw material prices. Finally, we prepare Adjusted Net Income attributable to Kraton by eliminating from net income the impact of a number of items we do not consider indicative of our on-going performance, including the spread between FIFO and ECRC. Our presentation of non-GAAP financial measures and the adjustments made therein should not be construed as an inference that our future results will be unaffected by unusual or non-recurring items, and in the future we may incur expenses or charges similar to the adjustments made in the presentation of our non-GAAP financial measures.

## Fourth Quarter 2014 Overview

(\$ millions, except volume and per share data)	<u>Q4 2014</u>	<u>Q4 2013</u>	<u>Change</u>
Sales volume (kT)	72.2	74.3	(2.9)%
Revenue	\$ 276.0	\$ 290.4	\$ (14.3)
Net income (loss) attributable to Kraton	\$ (17.4)	\$ 4.9	\$ (22.3)
Earnings (loss) per diluted share	\$ (0.54)	\$ 0.15	\$ (0.69)
Adjusted earnings per diluted share <sup>(1)</sup>	\$ 0.16	\$ 0.30	\$ (0.14)
Adjusted EBITDA <sup>(1)</sup>	\$ 31.7	\$ 35.0	\$ (3.3)
Net cash provided by operating activities	\$ 48.6	\$ 47.4	\$ 1.2

(1) See Non-GAAP reconciliations included in the appendix to this presentation.

## Full Year 2014 Overview

(\$ millions, except volume and per share data)	<u>2014</u>	<u>2013</u>	<u>Change</u>
Sales volume (kT)	305.6	313.5	(2.5)%
Revenue	\$ 1,230.4	\$ 1,292.1	\$ (61.7)
Net income (loss) attributable to Kraton	\$ 2.4	\$ (0.6)	\$ 3.0
Earnings (loss) per diluted share	\$ 0.07	\$ (0.02)	\$ 0.09
Adjusted earnings per diluted share <sup>(1)</sup>	\$ 1.16	\$ 1.20	\$ (0.04)
Adjusted EBITDA <sup>(1)</sup>	\$ 147.2	\$ 140.9	\$ 6.3
Net cash provided by operating activities	\$ 29.9	\$ 105.5	\$ (75.6)

(1) See Non-GAAP reconciliations included in the appendix to this presentation.

# Cariflex™

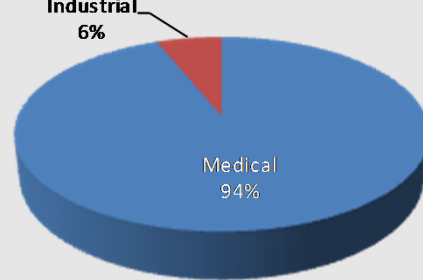
(\$ millions)	Q4'13	Q4'14
Revenue	\$31.5	\$34.0

- Sales volume increased 13.8% on higher sales into surgical glove and other medical applications
- Currency movements adversely impacted revenue by \$3.1 million

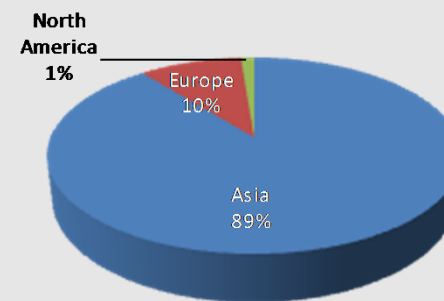
(\$ millions)	2013	2014
Revenue	\$116.0	\$138.6

- Sales volume increased 24.1%, led by surgical glove, and to a lesser extent, condom and medical stopper applications
- Currency movements adversely impacted revenue by \$2.8 million
- Average selling prices decreased, reflecting lower average costs for isoprene

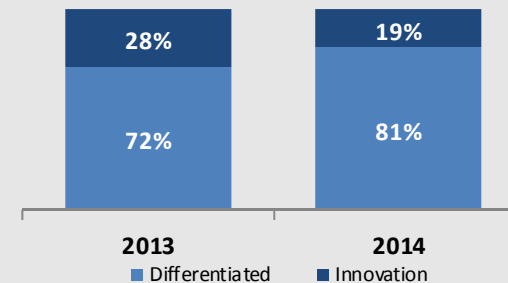
2014 Revenue by Application



2014 Revenue by Geography



Portfolio Composition



# Specialty Polymers

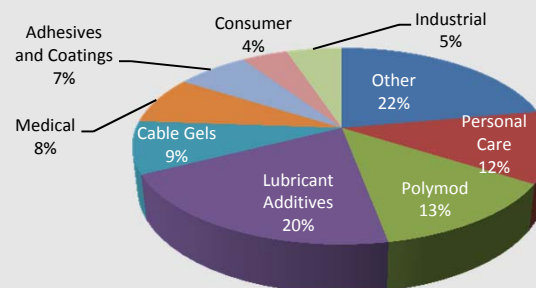
(\$ millions)	Q4'13	Q4'14
Revenue	\$85.7	\$94.9

- Sales volume increased 18.4%, primarily in lubricant additive and industrial applications
- Average selling prices decreased, reflecting lower average butadiene costs
- Currency movements adversely impacted revenue by \$3.0 million

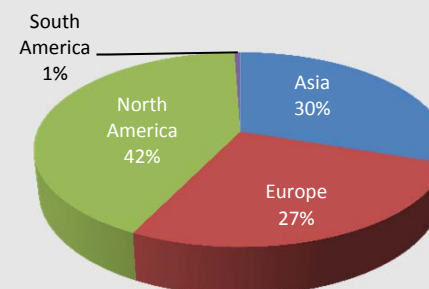
(\$ millions)	2013	2014
Revenue	\$412.0	\$412.4

- Sales volume increased 4.6% on growth in lubricant additives, cable gel and polymer modification applications, partially offset by lower volume into personal care applications
- Average selling prices decreased, associated with lower average raw material costs
- Currency movements adversely impacted revenue by \$1.1 million

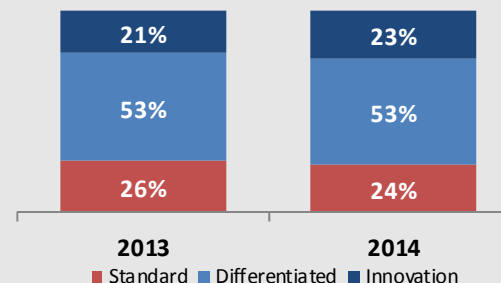
2014 Revenue by Application



2014 Revenue by Geography



Portfolio Composition



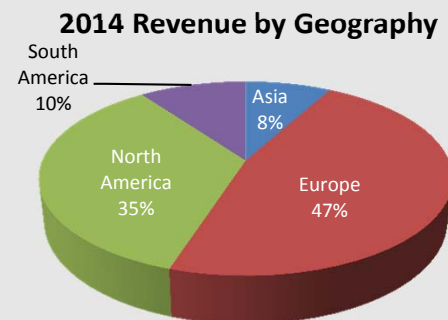
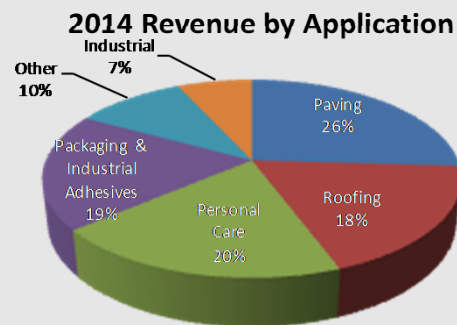
# Performance Products

(\$ millions)	Q4'13	Q4'14
Revenue	\$173.0	\$147.0

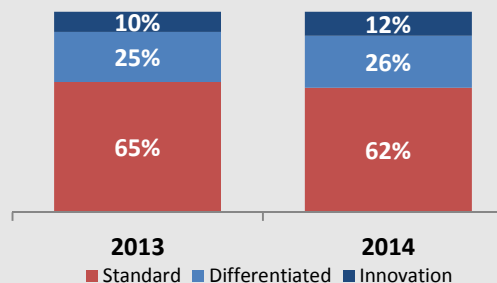
- Sales volume decreased 9.8% on lower sales into paving, roofing and packaging & industrial adhesive applications
- Average selling prices decreased, associated with lower average raw material costs for butadiene and isoprene
- Currency movements adversely impacted revenue by \$8.4 million

(\$ millions)	2013	2014
Revenue	\$762.9	\$678.9

- Sales volume decreased 6.2% on lower sales into paving, roofing and packaging & industrial adhesive applications
- Average selling prices decreased, associated with lower average raw material costs
- Currency movements adversely impacted revenue by \$7.5 million



## Portfolio Composition





# Kraton Portfolio Overview

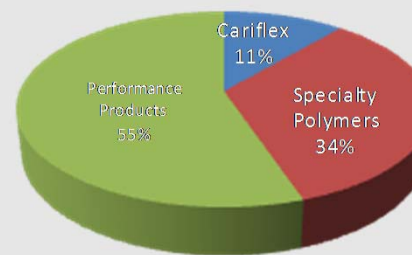
(\$ millions)	Q4'13	Q4'14
Revenue	\$290.4	\$276.0

- The revenue impact of a 2.9% reduction in sales volume was largely offset by favorable sales mix
- Average sales price decreased, largely due to lower sales prices associated with reduction in monomer costs
- Currency movements adversely impacted revenue by \$14.4 million

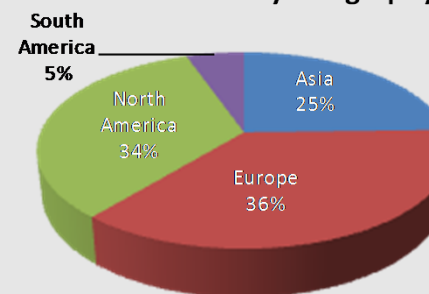
(\$ millions)	2013	2014
Revenue	\$1,292.1	\$1,230.4

- The revenue impact of a 2.5% reduction in sales volume was largely offset by favorable sales mix
- Average sales prices decreased, largely due to lower sales prices associated with reduction in monomer costs
- Currency movements adversely impacted revenue by \$11.4 million

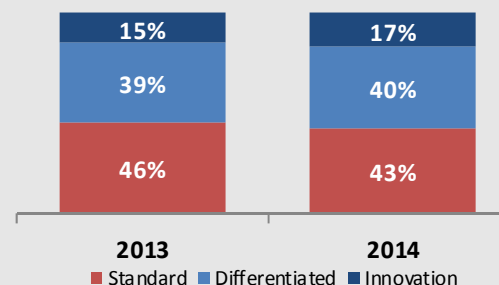
2014 Revenue by Product Group



2014 Revenue by Geography

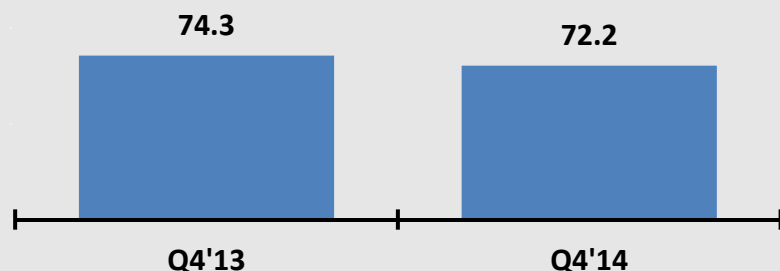


Portfolio Composition



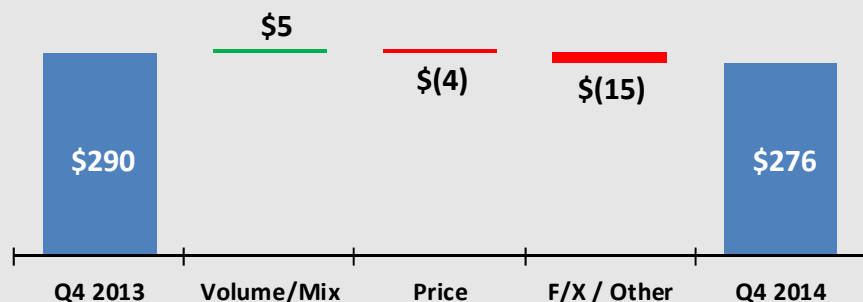
## Q4 2014 Sales Volume and Revenue

### Q4'14 Sales Volume (kT)



### Q4'14 Revenue

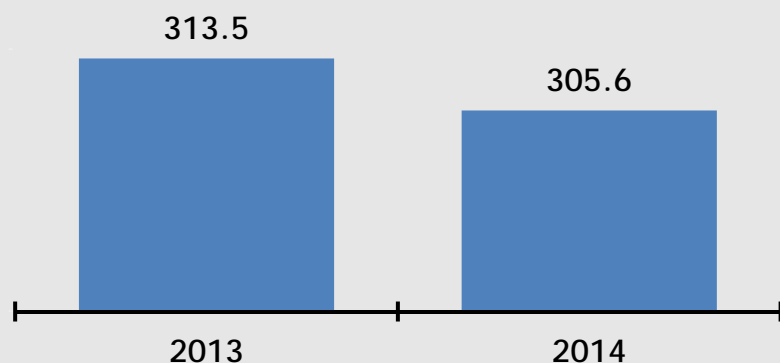
#### Q4 2013 to Q4 2014 (\$ in millions)



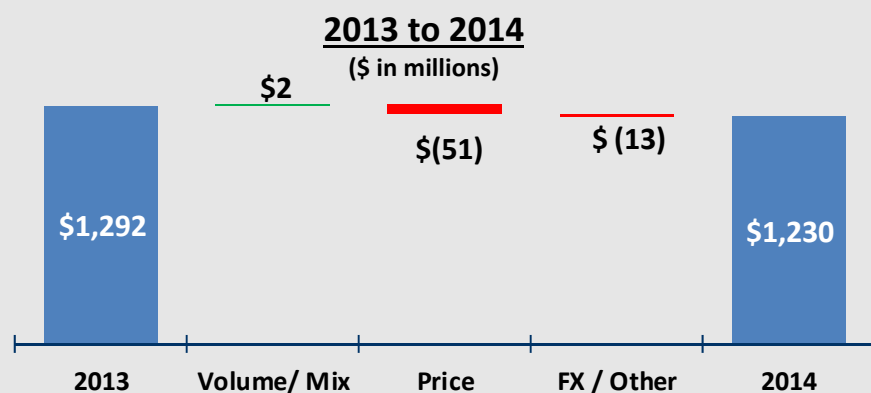
- Sales volume of 72.2 kT, down 2.2 kT or 2.9% compared to 74.3 kT in Q4 2013
- Cariflex sales volume up 13.8% on higher sales into surgical glove and other medical applications
- Specialty Polymers sales volume up 18.4% on higher sales into lubricant additive and industrial applications
- Performance Products sales volume down 9.8% on lower sales into roofing and paving applications
- Sales revenue down \$14.3 million or 4.9% compared to Q4 2013
- Favorable sales mix significantly offset the impact of lower sales volume
- Lower average sales prices were associated with lower average costs for raw materials

## 2014 Sales Volume and Revenue

### 2014 Sales Volume (kT)



### 2014 Revenue



- Sales volume of 305.6 kT, down 7.9 kT or 2.5% compared to 313.5 kT in 2013
  - Cariflex sales volume up 24.1% compared to 2013 on higher sales into surgical glove, and to a lesser extent, condom and medical stopper applications
  - Specialty Polymers sales volume up 4.6% compared to 2013, with increase led by higher sales into lubricant additives, cable gels and polymer modification applications
  - Performance Products sales volume down 6.2% compared to 2013 on lower sales into paving, roofing and adhesive applications
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- Revenue down \$61.7 million or 4.8% compared to 2013
  - Favorable sales mix served to offset impact of lower sales volume in Performance Products
  - Lower average sales prices were associated with lower average raw material costs

# Adjusted Gross Profit

	Three months ended		Twelve months ended	
	December 31		December 31	
	2014	2013	2014	2013
	(In thousands)		(In thousands)	
Gross Profit	\$ 44,090	\$ 58,610	\$ 237,067	\$ 225,832
<i>Add (deduct):</i>				
Restructuring and other charges <sup>(a)</sup>	93	135	651	218
Production downtime <sup>(b)</sup>	(1,518)	-	9,905	3,506
Impairment of spare parts inventory <sup>(c)</sup>	430	-	430	-
Spread between FIFO and ECRC	15,763	7,276	9,255	30,737
	<u>\$ 58,858</u>	<u>\$ 66,021</u>	<u>\$ 257,308</u>	<u>\$ 260,293</u>
Sales volume (kilotons)	72.2	74.3	305.6	313.5
Adjusted Gross Profit per Ton (Dollars)	\$ 816	\$ 888	\$ 842	\$ 830

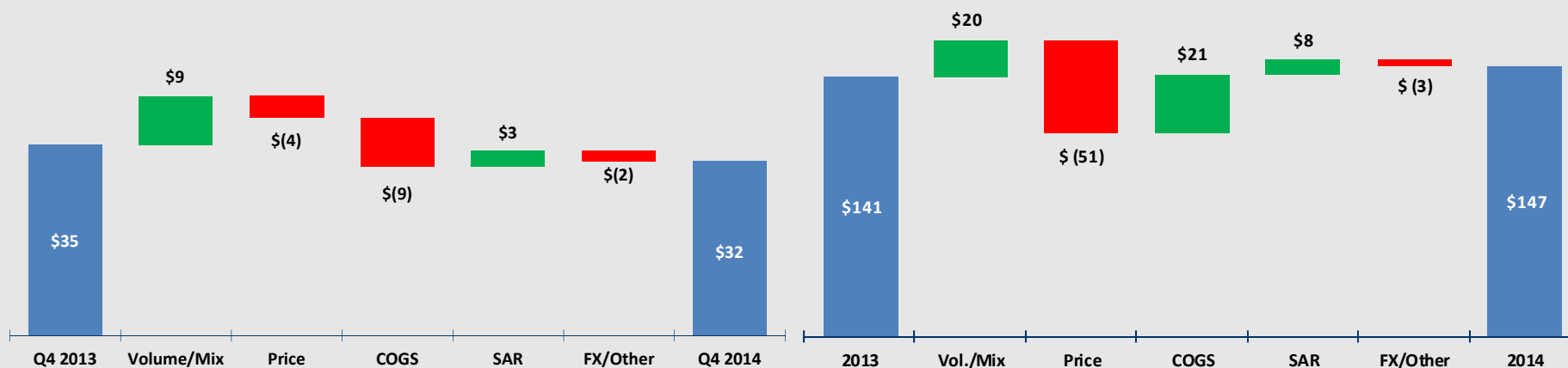
(a) Severance expenses and other restructuring related charges.

(b) In 2014, weather-related production downtime at our Belpre, Ohio, facility and an operating disruption from a small fire at our Berre, France, facility. In 2013, production downtime at our Belpre, Ohio facility, in preparation for the installation of natural gas boilers to replace the coal-burning boilers required by the MACT legislation. The fourth quarter of 2014 reflects a reduction of production downtime costs related to a partial insurance recovery and change in total estimated costs.

(c) Impairment of spare parts inventory associated with the coal-burning boilers which are planned for decommissioning in 2015.

# Fourth Quarter and Full Year 2014 Adjusted EBITDA and Earnings per Share

## Adjusted EBITDA <sup>(1)</sup>



## Adjusted Earnings Per Share

	3 months ended 12/31/2014	3 months ended 12/31/2013
GAAP EPS	\$ (0.54)	\$ 0.15
Special items <sup>(1)</sup>	0.22	0.24
Valuation allowance <sup>(1)</sup>	-	(0.31)
Spread between FIFO and ECRC <sup>(1)</sup>	0.48	0.22
Adjusted EPS <sup>(1)</sup>	\$ 0.16	\$ 0.30

	12 months ended 12/31/2014	12 months ended 12/31/2013
GAAP EPS	\$ 0.07	\$ (0.02)
Special items <sup>(1)</sup>	0.86	0.59
Valuation allowance <sup>(1)</sup>	(0.05)	(0.31)
Spread between FIFO and ECRC <sup>(1)</sup>	0.28	0.94
Adjusted EPS <sup>(1)</sup>	\$ 1.16	\$ 1.20

(1) See Non-GAAP reconciliations included in the appendix to this presentation.

## Cash Flow and Balance Sheet

(\$ millions)	3 months ended 12/31/2014			12 months ended 12/31/2014		
	Kraton	KFPC	Consol.	Kraton	KFPC	Consol.
Operating cash flow	\$49.8	\$(1.2)	\$48.6	\$40.5	\$(10.6)	\$29.9
Investing activities	\$(19.8)	\$(10.5)	\$(30.3)	\$(70.1)	\$(44.3)	\$(114.4)
Financing activities	\$(18.7)	-	\$(18.7)	\$(23.9)	\$(0.5)	\$(24.4)
Foreign currency impact	\$(5.8)	\$(2.3)	\$(8.1)	\$(9.7)	\$(3.4)	\$(13.1)
Beginning cash	\$40.3	\$22.0	\$62.3	\$109.1	\$66.8	\$175.9
Ending cash	\$45.8	\$8.0	\$53.8	\$45.8	\$8.0	\$53.8
Debt	\$351.9	-	\$351.9	\$351.9	-	\$351.9
Net debt	\$306.1	\$(8.0)	\$298.1	\$306.1	\$(8.0)	\$298.1

- ABL availability at 12/31/14 of \$191.6 million and total liquidity<sup>(1)</sup> of \$237.4 million
- Net debt<sup>(1)</sup> of \$306.1 million at 12/31/14
- Net debt<sup>(1)</sup> to TTM Adjusted EBITDA<sup>(2)</sup> was 2.1x at 12/31/14

(1) Excludes cash in KFPC joint venture of \$8.0 million.

(2) Please refer to Non-GAAP reconciliations included in the appendix to this presentation.

# Share Repurchase Program

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Share repurchase program announced October 28, 2014

- \$50 million authorization
- 2 year program, with shares to be repurchased through open market transactions at prevailing market prices, privately negotiated transactions, or through a trading program under rule 10b5-1

Through February 23, 2015, Kraton has repurchased a total of 1.3 million shares of common stock at an average price of \$18.91 per share for a total cost of \$25.0 million (excluding trading commissions)

- Represents a 4% reduction in share count since September 30, 2014

## Selected 2015 Estimates<sup>(1)</sup>

Research & development	\$32 million
SG&A	\$91 million
Depreciation and amortization	\$66 million
Interest expense	\$24 million <sup>(2)</sup>
2015 Income Tax Expense	\$7 million
Capex	\$60 - \$65 million <sup>(3)</sup>
Q1 2015 negative spread between FIFO and ECRC	\$30 - 35 million

(\$ millions)	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Year</u>
2015 Turnaround Costs	\$3.1	\$7.0	\$1.8	\$0.4	\$12.3
2014 Turnaround Costs	\$0.8	\$1.3	\$2.8	\$4.5	\$9.4

- (1) Management's estimates. These estimates are forward-looking statements and speak only as of February 25, 2015. Management assumes no obligation to update these estimates in light of new information or future events.
- (2) Interest expense (net of capitalized interest of \$3.9 million)
- (3) Does not include capital expenditures of the KFPC joint venture, which are estimated to be \$130 - \$140 million in 2015., and does not include capitalized interest.



# Appendix

February 25, 2015

# Adjusted Net Income and Adjusted Earnings per Share

(\$ thousands, except per share amounts)

	Three months ended December 31, 2014				Three months ended December 31, 2013			
	Income (Loss) Before	Income	Noncontrolling	Diluted	Income (Loss) Before	Income	Noncontrolling	Diluted
	Income Tax	Taxes	Interest	EPS	Income Tax	Taxes	Interest	EPS
GAAP Earnings (Loss)	\$ (16,068)	\$ 1,713	\$ (351)	\$ (0.54)	\$ (3,535)	\$ (8,259)	\$ (175)	\$ 0.15
Retirement plan charges <sup>(a)</sup>	399	8	-	0.01	-	-	-	-
Restructuring and other charges <sup>(b)</sup>	2,300	78	-	0.07	572	46	-	0.02
Transaction and acquisition related costs <sup>(c)</sup>	763	15	-	0.03	7,105	-	-	0.22
Impairment of long-lived assets <sup>(d)</sup>	4,731	95	-	0.14	-	-	-	-
Impairment of spare parts inventory <sup>(e)</sup>	430	9	-	0.01	-	-	-	-
Production downtime <sup>(f)</sup>	(1,732)	(35)	-	(0.05)	-	-	-	-
KFPC startup costs <sup>(g)</sup>	571	96	238	0.01	-	-	-	-
Change in valuation allowance <sup>(h)</sup>	-	(84)	-	-	-	10,065	-	(0.31)
Spread between FIFO and ECRC	15,763	239	-	0.48	7,276	2	-	0.22
<b>Adjusted Earnings (Loss)</b>	<b>\$ 7,157</b>	<b>\$ 2,134</b>	<b>\$ (113)</b>	<b>\$ 0.16</b>	<b>\$ 11,418</b>	<b>\$ 1,854</b>	<b>\$ (175)</b>	<b>\$ 0.30</b>

	Twelve months ended December 31, 2014				Twelve months ended December 31, 2013			
	Income Before	Income	Noncontrolling	Diluted	Income (Loss) Before	Income	Noncontrolling	Diluted
	Income Tax	Taxes	Interest	EPS	Income Tax	Taxes	Interest	EPS
GAAP Earnings (Loss)	\$ 6,328	\$ 5,118	\$ (1,209)	\$ 0.07	\$ (4,862)	\$ (3,887)	\$ (357)	\$ (0.02)
Retirement plan charges <sup>(a)</sup>	399	8	-	0.01	-	-	-	-
Restructuring and other charges <sup>(b)</sup>	2,953	204	-	0.08	815	74	-	0.02
Transaction and acquisition related costs <sup>(c)</sup>	9,585	192	-	0.29	9,164	-	-	0.28
Impairment of long-lived assets <sup>(d)</sup>	4,731	95	-	0.14	-	-	-	-
Impairment of spare parts inventory <sup>(e)</sup>	430	9	-	0.01	-	-	-	-
Production downtime <sup>(f)</sup>	10,291	135	-	0.31	3,506	-	-	0.11
KFPC startup costs <sup>(g)</sup>	1,911	325	793	0.02	-	-	-	-
Change in valuation allowance <sup>(h)</sup>	-	1,769	-	(0.05)	-	10,065	-	(0.31)
Settlement of interest rate swap <sup>(i)</sup>	-	-	-	-	697	-	-	0.02
Write-off of debt issuance cost <sup>(j)</sup>	-	-	-	-	5,065	-	-	0.16
Spread between FIFO and ECRC	9,255	64	-	0.28	30,737	(3)	-	0.94
<b>Adjusted Earnings (Loss)</b>	<b>\$ 45,883</b>	<b>\$ 7,919</b>	<b>\$ (416)</b>	<b>\$ 1.16</b>	<b>\$ 45,122</b>	<b>\$ 6,249</b>	<b>\$ (357)</b>	<b>\$ 1.20</b>

a) Charges associated with the termination of the defined benefit restoration pension plan, which are primarily recorded in selling, general and administrative expenses.

b) Severance expenses and other charges which are primarily recorded in selling, general and administrative expenses.

c) Primarily professional fees related to the terminated Combination Agreement with LCY, which are recorded in selling, general and administrative expenses.

d) \$2.4 million was related to engineering and design assets for projects we determined were no longer economically viable; \$1.4 million was related to information technology and office assets associated with fourth quarter restructuring activities; and \$0.9 million was related to other long-lived assets.

e) Impairment of spare parts inventory associated with the coal-burning boilers which are planned for decommissioning in 2015 which is recorded in cost of goods sold.

f) In 2014, weather-related production downtime at our Belpre, Ohio, facility and an operating disruption from a small fire at our Berre, France, facility, of which \$9.9 million is recorded in cost of goods sold and \$0.4 million is recorded in selling, general and administrative expenses. In 2013, production downtime at our Belpre, Ohio, facility, in preparation for the installation of natural gas boilers to replace the coal-burning boilers required by the MACT legislation, which is recorded in cost of goods sold. The fourth quarter of 2014 reflects a reduction of production downtime costs related to a partial insurance recovery and change in total estimated costs.

g) Startup costs related to the joint venture company, KFPC, which are recorded in selling, general and administrative expenses.

h) Income tax (expense) benefit related to a portion of the change in our valuation allowance for deferred tax assets.

i) Interest expense related to the termination and settlement of an interest rate swap agreement in connection with the refinancing of our credit facility.

j) Interest expense related to the write-off of unamortized debt issuance costs in connection with the refinancing of our credit facility.

# Reconciliation of Net Income Attributable to Kraton to Non-GAAP Financial Measures

Unaudited (\$ thousands, except per share amounts)	Three months ended December 31, 2014			
	As Reported	Other Adjustments	FIFO to ECRC Adjustment	Adjusted
Revenue	\$ 276,039	\$ -	\$ -	\$ 276,039
Cost of goods sold	231,949	996 (a)	(15,763)	217,182
Gross profit	44,090	(996)	15,763	58,857
Operating expenses:				
Research & Development	7,634	(16) (b)	-	7,618
Selling, general and administrative	25,337	(3,711) (c)	-	21,626
Depreciation and amortization	16,612	-	-	16,612
Impairment of long-lived assets	4,731	(4,731) (d)	-	-
Total operating expenses	54,314	(8,458)	-	45,856
Earnings of unconsolidated joint venture	83	-	-	83
Interest expenses, net	5,927	-	-	5,927
Income (loss) before income taxes	(16,068)	7,462	15,763	7,157
Income tax expense	1,713	182 (e)	239	2,134
Consolidated net income (loss)	(17,781)	7,280	15,524	5,023
Net income (loss) attributable to noncontrolling interest	(351)	238 (f)	-	(113)
Net income (loss) attributable to Kraton	\$ (17,430)	\$ 7,042	\$ 15,524	\$ 5,136
Earnings (loss) per common share:				
Basic	\$ (0.54)	\$ 0.22	\$ 0.48	\$ 0.16
Diluted	\$ (0.54)	\$ 0.22	\$ 0.48	\$ 0.16
Weighted average common shares outstanding:				
Basic	31,907	31,907	31,907	31,907
Diluted	31,907	32,160	32,160	32,160

- a) \$1.5 million reduction of production downtime costs related to a partial insurance recovery and true up of accruals, partially offset by \$0.1 million in restructuring and other charges and \$0.4 million in impairment of spare parts inventory. The fourth quarter of 2014 reflects a reduction of production downtime costs related to a partial insurance recovery and change in total estimated costs.
- b) Charges associated with the termination of the defined benefit restoration pension plan.
- c) \$2.2 million in restructuring and other charges, \$0.8 million in transaction costs, \$0.4 million of charges associated with the termination of the defined benefit restoration plan, and \$0.6 million in KFPC startup costs, partially offset by a \$0.2 million reduction of production downtime costs related to a partial insurance recovery and change in total estimated costs.
- d) Impairment of engineering, information technology, office, and other long-lived assets.
- e) Valuation allowance and tax effect of other adjustments.
- f) KFPC startup costs.

# Reconciliation of Net Income Attributable to Kraton to Non-GAAP Financial Measures

Unaudited (\$ thousands, except per share amounts)	Three months ended December 31, 2013			
	As Reported	Other Adjustments	FIFO to ECRC Adjustment	Adjusted
Revenue	\$ 290,362	\$ -	\$ -	\$ 290,362
Cost of goods sold	231,752	(135) (a)	(7,276)	224,341
Gross profit	58,610	135	7,276	66,021
Operating expenses:				
Research & Development	8,242	-	-	8,242
Selling, general and administrative	32,010	(7,542) (b)	-	24,468
Depreciation and amortization	16,529	-	-	16,529
Total operating expenses	56,781	(7,542)	-	49,239
Earnings of unconsolidated joint venture	158	-	-	158
Interest expenses, net	5,522	-	-	5,522
Income (loss) before income taxes	(3,535)	7,677	7,276	11,418
Income tax expense (benefit)	(8,259)	10,111 (c)	2	1,854
Consolidated net income (loss)	4,724	(2,434)	7,274	9,564
Net loss attributable to noncontrolling interest	(175)	-	-	(175)
Net income (loss) attributable to Kraton	\$ 4,899	\$ (2,434)	\$ 7,274	\$ 9,739
Earnings (loss) per common share:				
Basic	\$ 0.15	\$ (0.07)	\$ 0.22	\$ 0.30
Diluted	\$ 0.15	\$ (0.07)	\$ 0.22	\$ 0.30
Weighted average common shares outstanding:				
Basic	32,111	32,111	32,111	32,111
Diluted	32,439	32,439	32,439	32,439

- a) Restructuring and other charges.
- b) \$7.1 million in transaction costs and \$0.4 million in restructuring and other charges.
- c) Valuation allowance and tax effect of other adjustments.

# Reconciliation of Net Income Attributable to Kraton to Non-GAAP Financial Measures

	Twelve months ended December 31, 2014			
	As Reported	Other Adjustments	FIFO to ECRC Adjustment	Adjusted
Revenue	\$ 1,230,433	\$ -	\$ -	\$ 1,230,433
Cost of goods sold	993,366	(10,986) (a)	(9,255)	973,125
Gross profit	237,067	10,986	9,255	257,308
Operating expenses:				
Research & Development	31,370	(16) (b)	-	31,354
Selling, general and administrative	104,209	(14,567) (c)	-	89,642
Depreciation and amortization	66,242	-	-	66,242
Impairment of long-lived assets	4,731	(4,731) (d)	-	-
Total operating expenses	206,552	(19,314)	-	187,238
Earnings of unconsolidated joint venture	407	-	-	407
Interest expenses, net	24,594	-	-	24,594
Income before income taxes	6,328	30,300	9,255	45,883
Income tax expense	5,118	2,737 (e)	64	7,919
Consolidated net income	1,210	27,563	9,191	37,964
Net income (loss) attributable to noncontrolling interest	(1,209)	793 (f)	-	(416)
Net income attributable to Kraton	\$ 2,419	\$ 26,770	\$ 9,191	\$ 38,380
Earnings per common share:				
Basic	\$ 0.07	\$ 0.82	\$ 0.28	\$ 1.18
Diluted	\$ 0.07	\$ 0.81	\$ 0.28	\$ 1.16
Weighted average common shares outstanding:				
Basic	32,163	32,163	32,163	32,163
Diluted	32,483	32,483	32,483	32,483

- a) \$9.9 million in production downtime, \$0.7 million in restructuring and other charges, and \$0.4 million in impairment of spare parts inventory.
- b) Charges associated with the termination of the defined benefit restoration pension plan.
- c) \$9.6 million in transaction costs, \$2.3 million in restructuring and other charges, \$1.9 million related to KFPC startup costs, \$0.4 million of charges associated with the termination of the defined benefit restoration plan, and \$0.4 million in production downtime.
- d) Impairment of engineering, information technology, office, and other long-lived assets.
- e) Valuation allowance and tax effect of other adjustments.
- f) KFPC startup costs.

# Reconciliation of Net Income Attributable to Kraton to Non-GAAP Financial Measures

Unaudited (\$ thousands, except per share amounts)	Twelve months ended December 31, 2013			
	As Reported	Other Adjustments	FIFO to ECRC Adjustment	Adjusted
Revenue	\$ 1,292,121	\$ -	\$ -	\$ 1,292,121
Cost of goods sold	1,066,289	(3,274) (a)	(30,737)	1,031,828
Gross profit	225,832	3,724	30,737	260,293
Operating expenses:				
Research & Development	32,014	-	-	32,014
Selling, general and administrative	105,558	(9,761) (b)	-	95,797
Depreciation and amortization	63,182	-	-	63,182
Total operating expenses	200,754	(9,761)	-	190,993
Earnings of unconsolidated joint venture	530	-	-	530
Interest expenses, net	30,470	(5,762) (c)	-	24,708
Income (loss) before income taxes	(4,862)	19,247	30,737	45,122
Income tax expense (benefit)	(3,887)	10,139 (d)	(3)	6,249
Consolidated net income (loss)	(975)	9,108	30,740	38,873
Net loss attributable to noncontrolling interest	(357)	-	-	(357)
Net income (loss) attributable to Kraton	\$ (618)	\$ 9,108	\$ 30,740	\$ 39,230
Earnings (loss) per common share:				
Basic	\$ (0.02)	\$ 0.28	\$ 0.95	\$ 1.21
Diluted	\$ (0.02)	\$ 0.28	\$ 0.94	\$ 1.20
Weighted average common shares outstanding:				
Basic	32,096	32,096	32,096	32,096
Diluted	32,096	32,357	32,357	32,357

- a) \$3.5 million in production downtime and \$0.2 million in restructuring and other charges.  
b) \$9.2 million in transaction costs and \$0.6 million in restructuring and other charges.  
c) \$5.1 million write-off of debt issuance costs and \$0.7 million related to the termination and settlement of an interest rate swap agreement associated with replacing and refinancing our previous credit facility.  
d) Valuation allowance and tax effect of other adjustments.

# Reconciliation of Net Income Attributable to Kraton to EBITDA and Adjusted EBITDA

\$ in Thousands	Three months ended		Twelve months ended	
	12/31/2014	12/31/2013	12/31/2014	12/31/2013
Net income (loss) attributable to Kraton	\$ (17,430)	\$ 4,899	\$ 2,419	\$ (618)
Net loss attributable to noncontrolling interest	(351)	(175)	(1,209)	(357)
Consolidated net income (loss)	(17,781)	4,724	1,210	(975)
Add:				
Interest expense, net	5,927	5,522	24,594	30,470
Income tax expense (benefit)	1,713	(8,259)	5,118	(3,887)
Depreciation and amortization expenses	16,612	16,529	66,242	63,182
<b>EBITDA</b>	<b>6,471</b>	<b>18,516</b>	<b>97,164</b>	<b>88,790</b>
Add (deduct):				
Retirement plan charges <sup>(a)</sup>	399	-	399	-
Restructuring and other charges <sup>(b)</sup>	2,300	572	2,953	815
Transaction and acquisition related costs <sup>(c)</sup>	763	7,105	9,585	9,164
Impairment of long-lived assets <sup>(d)</sup>	4,731	-	4,731	-
Impairment of spare parts inventory <sup>(e)</sup>	430	-	430	-
Production downtime <sup>(f)</sup>	(1,732)	-	10,291	3,506
KFPC startup costs <sup>(g)</sup>	571	-	1,911	-
Non-cash compensation expense <sup>(h)</sup>	2,007	1,532	10,475	7,894
Spread between FIFO and ECRC	15,763	7,276	9,255	30,737
<b>Adjusted EBITDA</b>	<b>\$ 31,703</b>	<b>\$ 35,001</b>	<b>\$ 147,194</b>	<b>\$ 140,906</b>

a) Charges associated with the termination of the defined benefit restoration pension plan, which are primarily recorded in selling, general and administrative expenses.

b) Severance expenses and other charges, which are primarily recorded in selling, general and administrative expenses.

c) Primarily professional fees related to the terminated Combination Agreement with LCY, which are recorded in selling, general and administrative expenses.

d) \$2.4 million related to engineering and design assets for projects we determined were no longer economically viable; \$1.4 million related to information technology and office assets associated with fourth quarter restructuring activities; and \$0.9 million related to other long-lived assets.

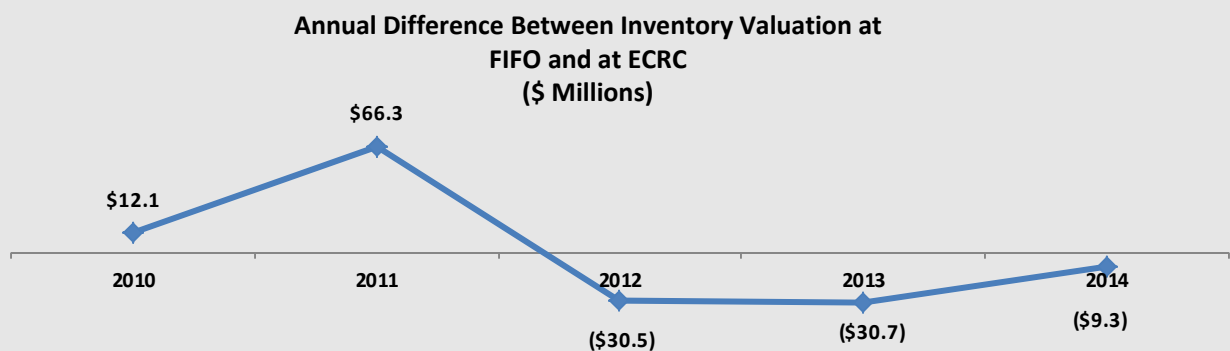
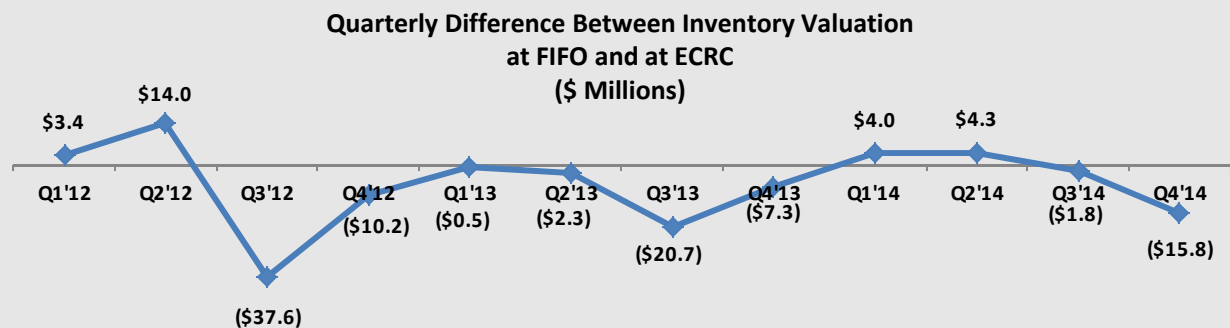
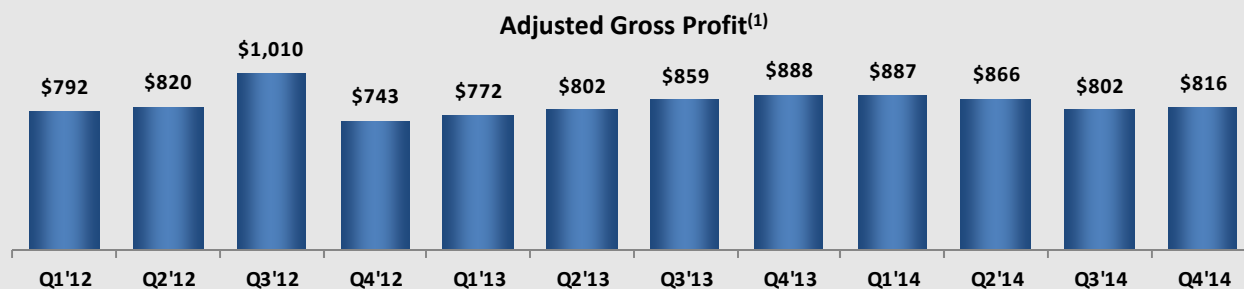
e) Impairment of spare parts inventory associated with the coal-burning boilers which are planned for decommissioning in 2015 which is recorded in cost of goods sold.

f) In 2014, weather-related production downtime at our Belpre, Ohio, facility and an operating disruption from a small fire at our Berre, France, facility, of which \$9.9 million is recorded in cost of goods sold and \$0.4 million is recorded in selling general and administrative expenses. In 2013, production downtime at our Belpre, Ohio facility, in preparation for the installation of natural gas boilers to replace the coal-burning boilers required by the MACT legislation, which is recorded in cost of goods sold. The fourth quarter of 2014 reflects a reduction of production downtime costs related to a partial insurance recovery and change in total estimated costs.

g) Startup costs related to the joint venture company, KFPC, which are recorded in selling, general and administrative expenses.

h) For the three months and year ended December 31, 2014, \$1.7 million and \$9.0 million was recorded in selling, general, and administrative expenses, \$0.2 million and \$0.9 million was recorded in research and development expenses, and \$0.1 million and \$0.6 million was recorded in cost of goods sold. Prior to the second quarter 2013, all non-cash compensation expenses were recorded in selling, general and administrative expenses. For the three months and year ended December 31, 2013, \$1.3 million and \$7.1 million was recorded in selling, general, and administrative expenses, \$0.1 million and \$0.5 million was recorded in research and development expenses, and \$0.1 million and \$0.3 million was recorded in cost of goods sold.

# Monomer Volatility



(1) Please refer to the reconciliation between Gross Profit and Adjusted Gross Profit included in the appendix to this presentation.



## Reconciliation of Gross Profit to Adjusted Gross Profit<sup>(1)</sup>

(\$ millions)	Q1'12	Q2'12	Q3'12	Q4'12	Q1'13	Q2'13	Q3'13	Q4'13	Q1'14	Q2'14	Q3'14	Q414
Gross Profit @ FIFO	\$75.5	\$73.5	\$42.8	\$39.7	\$59.9	\$59.9	\$47.5	\$58.6	\$57.1	\$72.1	\$63.8	\$44.1
FIFO to ECRC	(\$3.4)	(\$14.0)	\$37.6	\$10.2	\$0.5	\$2.3	\$20.7	\$7.3	(\$4.0)	(\$4.3)	\$1.8	\$15.8
Restructuring and other charges	-	\$1.0	-	-	-	-	\$0.1	\$0.1	\$0.5	\$0.1	-	\$ 0.1
Production downtime	-	-	-	-	-	-	\$3.5	-	\$12.4	-	\$(1.0)	\$(1.5)
Impairment of spare parts inventory	-	-	-	-	-	-	-	-	-	-	-	\$0.4
Storm related charges	-	\$2.8	(\$0.3)	-	-	-	-	-	-	-	-	-
Property tax dispute	\$5.6	-	-	-	-	-	-	-	-	-	-	-
Settlement gain	(\$6.8)	-	-	-	-	-	-	-	-	-	-	-
Adjusted Gross Profit	\$71.0	\$63.3	\$80.1	\$49.9	\$60.4	\$62.2	\$71.7	\$66.0	\$66.0	\$67.8	\$64.7	\$58.9
Sales Volume (Kilotons)	89.6	77.2	79.3	67.2	78.2	77.5	83.5	74.3	74.4	78.4	80.7	72.2
Adjusted Gross Profit per ton	\$792	\$820	\$1,010	\$743	\$772	\$802	\$859	\$888	\$887	\$866	\$802	\$816

(1) Adjusted gross profit is gross profit net of the impact of the spread between the FIFO basis of accounting and ECRC and excluding certain discrete items listed in the table above. Although we report our financial results using the FIFO basis of accounting, as part of our pricing strategy, we measure our business performance using the estimated current replacement cost ("ECRC") of our inventory and cost of goods sold. In addition, volatility in the cost of raw materials affects our results of operations and the period-over-period comparability of our results of operations. Therefore, we provide Adjusted Gross Profit as another supplemental measure of our performance. We believe this adjustment provides helpful information to investors, securities analysts and other interested parties in the evaluating period-over-period comparisons of our performance. For further information on the differences between FIFO and ECRC, see our most recent annual report on Form 10-K.

## Historical Revenue by Product Group

(Unaudited)  
\$ Thousands

	Q1 2014	Q2 2014	Q3 2014	Q4 2014	FY 2014
Performance Products	\$ 167,852	\$ 183,974	\$ 180,122	\$ 146,982	\$ 678,930
Specialty Polymers	108,346	110,463	98,742	94,884	412,435
Cariflex	35,363	29,242	39,958	34,032	138,596
Other	95	88	148	141	472
Total	<u>\$ 311,656</u>	<u>\$ 323,767</u>	<u>\$ 318,971</u>	<u>\$ 276,039</u>	<u>\$ 1,230,433</u>

	Q1 2013	Q2 2013	Q3 2013	Q4 2013	FY 2013
Performance Products	\$ 199,484	\$ 194,951	\$ 195,533	\$ 172,971	\$ 762,939
Specialty Polymers	113,287	110,073	102,940	85,709	412,009
Cariflex	27,029	29,244	28,231	31,499	116,003
Other	307	275	405	183	1,170
Total	<u>\$ 340,107</u>	<u>\$ 334,543</u>	<u>\$ 327,109</u>	<u>\$ 290,362</u>	<u>\$ 1,292,121</u>

	Q1 2012	Q2 2012	Q3 2012	Q4 2012	FY 2012
Performance Products	\$ 245,636	\$ 221,131	\$ 210,624	\$ 173,371	\$ 850,762
Specialty Polymers	138,380	124,588	107,580	93,712	464,260
Cariflex	22,645	29,805	24,193	29,255	105,898
Other	1,652	232	342,635	80	2,202
Total	<u>\$ 408,313</u>	<u>\$ 375,756</u>	<u>\$ 342,635</u>	<u>\$ 296,418</u>	<u>\$ 1,423,122</u>



Kraton Performance Polymers, Inc.

Fourth Quarter 2014 Earnings Conference Call

February 25, 2015