

Kraton Corp  
Form 10-Q  
October 25, 2017

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2017

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission File Number 001-34581

Kraton Corporation  
(Exact Name of Registrant as Specified in its Charter)

Delaware  
(State or other jurisdiction of  
incorporation or organization)

20-0411521  
(I.R.S. Employer  
Identification No.)

15710 John F. Kennedy Blvd.  
Suite 300  
Houston, TX 77032

281-504-4700

(Address of principal executive offices, including zip code) (Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Securities Exchange Act. (Check one):

Large accelerated filer:  Accelerated filer:

Non-accelerated filer:  Smaller reporting company:

Emerging growth company:

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the

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Exchange Act. "

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes " No ý

Number of shares of Kraton Corporation Common Stock, \$0.01 par value, outstanding as of October 23, 2017: 31,296,121.

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on Form 10-Q for  
Quarter Ended September 30, 2017

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## CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION

Some of the statements and information in this Quarterly Report on Form 10-Q contain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. We may also make written forward-looking statements in our reports on Forms 10-K, 10-Q and 8-K, in press releases and other written materials as well as in oral statements made by our officers, directors or employees to third parties. Statements that are not historical facts, including statements about our beliefs and expectations, are forward-looking statements. Forward looking statements are often identified by words such as “outlook,” “believes,” “estimates,” “expects,” “projects,” “may,” “intends,” “plans,” “anticipates,” “foresees,” “future” or similar expressions or by discussions of strategy, plans or intentions. However, the absence of these words or similar expressions does not mean that a statement is not forward-looking. All statements that address operating performance, events or developments that we expect or anticipate will occur in the future, including statements related to our expectations of, among other things, tax loss limitations, the effects of litigation, the return on plan assets and our total pension plan obligations, the current cost of significant raw material inputs and capital expenditures are forward-looking statements.

Forward-looking statements involve known and unknown risks, uncertainties, assumptions and other important factors that could cause the actual results, performance or our achievements, or industry results, to differ materially from historical results, any future results, or performance or achievements expressed or implied by such forward-looking statements. There are a number of risks and uncertainties that could cause our actual results to differ materially from the forward-looking statements contained in this report. Important factors that could cause our actual results to differ materially from those expressed as forward-looking statements include, but are not limited to:

- our ability to successfully identify, complete and integrate potential acquisitions, including our acquisition of Arizona Chemical Holdings Corporation (now known as AZ Chem Holdings LP, “Arizona Chemical”), and realize expected synergies and cost savings related thereto;
- our ability to generate sufficient cash flows to fund our working capital requirements and service our outstanding indebtedness;
- the availability, terms and deployment of indebtedness and equity capital, including our ability to fully access our senior secured credit facilities;
- our relationships with our customers;
- the benefits of, or performance of, our products;
  - our beliefs regarding opportunities for new, differentiated applications and other innovations;
- the cost and availability of raw materials, ending inventory levels and related changes;
- our counterparties’ ability to perform their obligations under operating, service, supply and other similar agreements and our ability to replace or renew such agreements when they expire;
- our investments in joint ventures, including Kraton Formosa Polymers Corporation (“KFPC”);
- developments in our capital expenditures, health, safety, environmental, security and infrastructure and maintenance costs, projects to optimize the production capabilities of our manufacturing assets and to support our innovation platform;
- our effective tax rates and positions;
- our ability to realize deferred tax assets and expected expenses of repatriating cash and short-term investments related to foreign operations and/or indebtedness;
- our future reliance on third party providers, in particular LyondellBasell Industries, for operating and other services;
- our ability to address or manage corruption concerns in certain locations in which we operate;
- our ability to address and manage cyber-security risks;
- our ability to protect our intellectual property, on which our business is substantially dependent;
- our expectations regarding future divided payments;
- our expectations regarding the impact of general economic conditions on our business; and
  - the factors set forth in this report, in our latest Annual Report on Form 10-K, including but not limited to “Part I, Item 1A. Risk Factors” and “Part II, 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 (the “SEC”).



There may be other factors of which we are currently unaware or deem immaterial that may cause our actual results to differ materially from the forward-looking statements. In addition, to the extent any inconsistency or conflict exists between the information included in this report and the information included in our prior reports and other filings with the SEC, the information contained in this report updates and supersedes such information.

Forward-looking statements are based on current plans, estimates, assumptions and projections, and, therefore, you should not place undue reliance on them. Forward-looking statements speak only as of the date they are made, and we undertake no obligation to update them in light of new information or future events.

#### Presentation of Financial Statements

The terms “Kraton,” “our company,” “we,” “our,” “ours” and “us” as used in this report refer collectively to Kraton Corporation and its consolidated subsidiaries.

This Quarterly Report on Form 10-Q includes financial statements and related notes that present the condensed consolidated financial position, results of operations, comprehensive income, and cash flows of Kraton. Kraton Corporation is a holding company whose only material asset is its investment in its wholly owned subsidiary, Kraton Polymers LLC. Kraton Polymers LLC and its subsidiaries own all of our consolidated operating assets.

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders

Kraton Corporation:

We have reviewed the accompanying condensed consolidated balance sheet of Kraton Corporation and subsidiaries (the "Company") as of September 30, 2017, the related condensed consolidated statements of operations, and comprehensive income, for the three-month and nine-month periods ended September 30, 2017 and 2016, and the related condensed consolidated statements of changes in equity, and cash flows for the nine-month periods ended September 30, 2017 and 2016. These condensed consolidated financial statements are the responsibility of the Company's management.

We conducted our reviews in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board (United States), the objective of which is the expression of an opinion regarding the financial statements taken as a whole.

Accordingly, we do not express such an opinion.

Based on our reviews, we are not aware of any material modifications that should be made to the condensed consolidated financial statements referred to above for them to be in conformity with U.S. generally accepted accounting principles.

We have previously audited, in accordance with standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of Kraton Corporation and subsidiaries as of December 31, 2016, and the related consolidated statements of operations, comprehensive income (loss), changes in equity, and cash flows for the year then ended (not presented herein); and in our report dated February 28, 2017, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of December 31, 2016 is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

/s/ KPMG LLP

Houston, Texas

October 25, 2017



## PART I. FINANCIAL INFORMATION

## Item 1. Condensed Consolidated Financial Statements.

## KRATON CORPORATION

## CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except par value)

|  | September 30,<br>2017 | December 31,<br>2016 |
|--|-----------------------|----------------------|
|  | (unaudited)           |                      |
| <b>ASSETS</b>  |                       |                      |
| Current assets:  |                       |                      |
| Cash and cash equivalents  | \$ 89,118             | \$ 121,749           |
| Receivables, net of allowances of \$1,406 and \$814  | 253,437               | 200,860              |
| Inventories of products, net   | 362,831               | 327,996              |
| Inventories of materials and supplies, net   | 24,832                | 22,392               |
| Prepaid expenses   | 36,348                | 35,851               |
| Other current assets   | 45,993                | 37,658               |
| Total current assets   | 812,559               | 746,506              |
| Property, plant, and equipment, less accumulated depreciation of \$505,660 and \$411,418   | 942,834               | 906,722              |
| Goodwill   | 773,635               | 770,012              |
| Intangible assets, less accumulated amortization of \$184,614 and \$144,946  | 416,747               | 439,198              |
| Investment in unconsolidated joint venture   | 12,098                | 11,195               |
| Debt issuance costs  | 2,633                 | 3,511                |
| Deferred income taxes  | 8,766                 | 6,907                |
| Other long-term assets   | 23,334                | 22,594               |
| Total assets   | \$ 2,992,606          | \$ 2,906,645         |
| <b>LIABILITIES AND EQUITY</b>  |                       |                      |
| Current liabilities:   |                       |                      |
| Current portion of long-term debt  | \$ 33,553             | \$ 41,825            |
| Accounts payable-trade   | 156,426               | 150,081              |
| Other payables and accruals  | 151,856               | 130,398              |
| Due to related party   | 16,045                | 14,669               |
| Total current liabilities  | 357,880               | 336,973              |
| Long-term debt, net of current portion   | 1,667,074             | 1,697,700            |
| Deferred income taxes  | 215,145               | 211,396              |
| Other long-term liabilities  | 168,139               | 170,339              |
| Total liabilities  | 2,408,238             | 2,416,408            |
| Commitments and contingencies (note 10)  |                       |                      |
| Equity:  |                       |                      |
| Kraton stockholders' equity:   |                       |                      |
| Preferred stock, \$0.01 par value; 100,000 shares authorized; none issued  | —                     | —                    |
| Common stock, \$0.01 par value; 500,000 shares authorized; 31,261 shares issued and outstanding at September 30, 2017; 30,960 shares issued and outstanding at December 31, 2016 | 313                   | 310                  |
| Additional paid in capital   | 369,702               | 361,682              |
| Retained earnings  | 282,380               | 254,439              |
| Accumulated other comprehensive loss   | (97,105)              | (158,530)            |
| Total Kraton stockholders' equity  | 555,290               | 457,901              |
| Noncontrolling interest  | 29,078                | 32,336               |

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|                              |              |              |
|------------------------------|--------------|--------------|
| Total equity                 | 584,368      | 490,237      |
| Total liabilities and equity | \$ 2,992,606 | \$ 2,906,645 |

See Notes to Condensed Consolidated Financial Statements

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KRATON CORPORATION  
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

(In thousands, except per share data)

|  | Three Months Ended |           | Nine Months Ended |             |
|--|--------------------|-----------|-------------------|-------------|
|  | September 30,      |           | September 30,     |             |
|  | 2017               | 2016      | 2017              | 2016        |
| Revenue  | \$510,947          | \$454,143 | \$1,494,392       | \$1,328,715 |
| Cost of goods sold                               | 382,228            | 318,887   | 1,075,051         | 967,744     |
| Gross profit                                     | 128,719            | 135,256   | 419,341           | 360,971     |
| Operating expenses:                              |                    |           |                   |             |
| Research and development                         | 10,325             | 9,693     | 30,429            | 30,383      |
| Selling, general, and administrative             | 42,579             | 42,769    | 124,436           | 135,845     |
| Depreciation and amortization                    | 34,307             | 31,977    | 102,040           | 93,913      |
| Operating income                                 | 41,508             | 50,817    | 162,436           | 100,830     |
| Disposition and exit of business activities      | —                  | —         | —                 | 40,001      |
| Loss on extinguishment of debt                   | (15,632 )          | —         | (35,370 )         | (13,423 )   |
| Earnings of unconsolidated joint venture         | 125                | 94        | 370               | 274         |
| Interest expense, net                            | (33,017 )          | (33,870 ) | (101,766 )        | (101,450 )  |
| Income (loss) before income taxes                | (7,016 )           | 17,041    | 25,670            | 26,232      |
| Income tax benefit (expense)                     | 2,165              | (2,198 )  | (2,907 )          | 83,024      |
| Consolidated net income (loss)                   | (4,851 )           | 14,843    | 22,763            | 109,256     |
| Net loss attributable to noncontrolling interest | 818                | 717       | 5,178             | 1,792       |
| Net income (loss) attributable to Kraton         | \$(4,033 )         | \$15,560  | \$27,941          | \$111,048   |
| Earnings (loss) per common share:                |                    |           |                   |             |
| Basic  | \$(0.13 )          | \$0.50    | \$0.90            | \$3.60      |
| Diluted  | \$(0.13 )          | \$0.49    | \$0.88            | \$3.56      |
| Weighted average common shares outstanding:      |                    |           |                   |             |
| Basic  | 30,625             | 30,221    | 30,548            | 30,137      |
| Diluted  | 30,625             | 30,783    | 31,006            | 30,557      |

See Notes to Condensed Consolidated Financial Statements

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KRATON CORPORATION  
 CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME  
 (Unaudited)  
 (In thousands)

|   | Three months ended<br>September 30, |          | Nine months ended<br>September 30, |           |
|---|-------------------------------------|----------|------------------------------------|-----------|
|   | 2017                                | 2016     | 2017                               | 2016      |
| Net income (loss) attributable to Kraton  | \$(4,033 )                          | \$15,560 | \$27,941                           | \$111,048 |
| Other comprehensive income:   |                                     |          |                                    |           |
| Foreign currency translation adjustments, net of tax of \$0                                       | 18,910                              | 3,994    | 60,691                             | 27,311    |
| Unrealized loss on cash flow hedges, net of tax benefit of \$382 and \$412 for 2017, respectively | (239 )                              | (48 )    | (145 )                             | (5,354 )  |
| Reclassification of loss on cash flow hedge   | 920                                 | —        | 879                                | —         |
| Other comprehensive income, net of tax  | 19,591                              | 3,946    | 61,425                             | 21,957    |
| Comprehensive income attributable to Kraton   | 15,558                              | 19,506   | 89,366                             | 133,005   |
| Comprehensive income (loss) attributable to noncontrolling interest                               | (787 )                              | 339      | (3,258 )                           | (199 )    |
| Consolidated comprehensive income   | \$14,771                            | \$19,845 | \$86,108                           | \$132,806 |

See Notes to Condensed Consolidated Financial Statements

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KRATON CORPORATION  
 CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY  
 (Unaudited)  
 (In thousands)

|  | Common<br>Stock | Additional<br>Paid in<br>Capital | Retained<br>Earnings | Accumulated<br>Other<br>Comprehensive<br>Loss | Total Kraton<br>Stockholders'<br>Equity | Noncontrolling<br>Interest | Total<br>Equity |
|--|-----------------|----------------------------------|----------------------|---|---|----------------------------|-----------------|
| Balance at December 31, 2015                             | \$ 306          | \$349,871                        | \$147,131            | \$ (138,568 )                                 | \$ 358,740                              | \$ 34,252                  | \$392,992       |
| Net income (loss)  | —               | —                                | 111,048              | —   | 111,048                                 | (1,792 )                   | 109,256         |
| Other comprehensive income                               | —               | —                                | —                    | 21,957  | 21,957                                  | 1,593                      | 23,550          |
| Retired treasury stock from<br>employee tax withholdings | (1 )            | (966 )                           | —                    | —   | (967 )                                  | —                          | (967 )          |
| Exercise of stock options                                | 1               | 2,624                            | —                    | —   | 2,625                                   | —                          | 2,625           |
| Non-cash compensation related<br>to equity awards        | 3               | 7,269                            | —                    | —   | 7,272                                   | —                          | 7,272           |
| Balance at September 30, 2016                            | \$ 309          | \$358,798                        | \$258,179            | \$ (116,611 )                                 | \$ 500,675                              | \$ 34,053                  | \$534,728       |
| Balance at December 31, 2016                             | \$ 310          | \$361,682                        | \$254,439            | \$ (158,530 )                                 | \$ 457,901                              | \$ 32,336                  | \$490,237       |
| Net income (loss)  | —               | —                                | 27,941               | —   | 27,941                                  | (5,178 )                   | 22,763          |
| Other comprehensive income                               | —               | —                                | —                    | 61,425  | 61,425                                  | 1,920                      | 63,345          |
| Retired treasury stock from<br>employee tax withholdings | —               | (2,297 )                         | —                    | —   | (2,297 )                                | —                          | (2,297 )        |
| Exercise of stock options                                | 1               | 2,953                            | —                    | —   | 2,954                                   | —                          | 2,954           |
| Non-cash compensation related<br>to equity awards        | 2               | 7,364                            | —                    | —   | 7,366                                   | —                          | 7,366           |
| Balance at September 30, 2017                            | \$ 313          | \$369,702                        | \$282,380            | \$ (97,105 )                                  | \$ 555,290                              | \$ 29,078                  | \$584,368       |

See Notes to Condensed Consolidated Financial Statements

KRATON CORPORATION  
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
 (Unaudited)  
 (In thousands)

|  | Nine Months Ended<br>September 30, |             |
|--|------------------------------------|-------------|
|  | 2017                               | 2016        |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>  |                                    |             |
| Consolidated net income  | \$22,763                           | \$109,256   |
| Adjustments to reconcile consolidated net income to net cash provided by operating activities: |                                    |             |
| Depreciation and amortization  | 102,040                            | 93,913      |
| Amortization of debt original issue discount   | 4,926                              | 4,893       |
| Amortization of debt issuance costs  | 6,309                              | 5,343       |
| (Gain) loss on disposal of property, plant, and equipment                                      | 61                                 | 452         |
| Disposition and exit of business activities  | —                                  | (40,001 )   |
| Loss on extinguishment of debt   | 35,370                             | 13,423      |
| Earnings from unconsolidated joint venture, net of dividends received                          | 67                                 | 136         |
| Deferred income tax benefit  | (3,526 )                           | (4,343 )    |
| Release of valuation allowance   | —                                  | (86,631 )   |
| Share-based compensation   | 7,366                              | 7,272       |
| Decrease (increase) in:  |                                    |             |
| Accounts receivable  | (38,921 )                          | (18,114 )   |
| Inventories of products, materials, and supplies   | (19,126 )                          | 44,035      |
| Other assets   | (6,171 )                           | (3,044 )    |
| Increase (decrease) in:  |                                    |             |
| Accounts payable-trade   | 2,267                              | (2,981 )    |
| Other payables and accruals  | 26,851                             | (401 )      |
| Other long-term liabilities  | (5,433 )                           | 4,631       |
| Due to related party   | 606                                | (1,710 )    |
| Net cash provided by operating activities  | 135,449                            | 126,129     |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>  |                                    |             |
| Kraton purchase of property, plant, and equipment  | (71,595 )                          | (62,885 )   |
| KFPC purchase of property, plant, and equipment  | (11,790 )                          | (16,995 )   |
| Purchase of software and other intangibles   | (4,959 )                           | (4,691 )    |
| Acquisition, net of cash acquired  | —                                  | (1,312,105) |
| Sale of assets   | —                                  | 72,803      |
| Net cash used in investing activities  | (88,344 )                          | (1,323,873) |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>  |                                    |             |
| Proceeds from debt   | 739,167                            | 1,782,965   |
| Repayments of debt   | (837,012)                          | (480,133 )  |
| KFPC proceeds from debt  | 39,898                             | 24,368      |
| KFPC repayments of debt  | (16,244 )                          | —           |
| Capital lease payments   | (703 )                             | (105 )      |
| Purchase of treasury stock   | (2,297 )                           | (967 )      |
| Proceeds from the exercise of stock options  | 2,954                              | 2,625       |
| Settlement of interest rate swap   | (879 )                             | (5,155 )    |
| Settlement of foreign currency hedges  | (716 )                             | —           |
| Debt issuance costs  | (13,929 )                          | (57,646 )   |
| Net cash provided by (used in) financing activities  | (89,761 )                          | 1,265,952   |

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|   |           |           |
|---|-----------|-----------|
| Effect of exchange rate differences on cash                           | 10,025    | 5,291     |
| Net increase (decrease) in cash and cash equivalents                  | (32,631 ) | 73,499    |
| Cash and cash equivalents, beginning of period                        | 121,749   | 70,049    |
| Cash and cash equivalents, end of period                              | \$89,118  | \$143,548 |
| Supplemental disclosures:   |           |           |
| Cash paid during the period for income taxes, net of refunds received | \$12,030  | \$7,788   |
| Cash paid during the period for interest, net of capitalized interest | \$72,288  | \$56,972  |
| Capitalized interest  | \$3,334   | \$4,022   |
| Supplemental non-cash disclosures:                                    |           |           |
| Property, plant, and equipment accruals                               | \$17,268  | \$30,494  |

See Notes to Condensed Consolidated Financial Statements

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KRATON CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. General

Description of our Business. We are a leading global specialty chemicals company that manufactures styrenic block copolymers (“SBCs”), other engineered polymers, and value-added specialty products primarily derived from pine wood pulping co-products. The operating results of Arizona Chemical have been included in these financial statements since January 6, 2016, the date of the acquisition of Arizona Chemical (the “Arizona Chemical Acquisition”).

SBCs are highly-engineered synthetic elastomers, that we originally invented and commercialized. Our SBCs enhance the performance of numerous products by imparting greater flexibility, resilience, strength, durability, and processability, and are used in a wide range of applications, including adhesives, coatings, consumer and personal care products, sealants, lubricants, medical, packaging, automotive, and paving and roofing products. We also manufacture and sell isoprene rubber and isoprene rubber latex, which are non-SBC products primarily used in applications such as medical products, personal care, adhesives, tackifiers, paints, and coatings.

We also refine and further upgrade crude tall oil and crude sulfate turpentine, into value-added specialty chemicals. These pine-based specialty products are sold into adhesive, road and construction, and tire markets, and we produce and sell a broad range of performance chemicals (which we formerly referred to as chemical intermediates) into markets that include fuel additives, oilfield chemicals, coatings, metalworking fluids and lubricants, inks, flavors and fragrances, and mining.

References to “Kraton,” “our company,” “we,” “our,” “ours” and “us” as used in this report refer collectively to Kraton Corporation and its consolidated subsidiaries.

Basis of Presentation. The accompanying unaudited Condensed Consolidated Financial Statements presented in this report are for us and our consolidated subsidiaries, each of which is a wholly-owned subsidiary, except our 50% investment in our joint venture, Kraton Formosa Polymers Corporation (“KFPC”), located in Mailiao, Taiwan. KFPC is a variable interest entity for which we have determined that we are the primary beneficiary and, therefore, have consolidated into our financial statements. Our 50% investment in our joint venture located in Kashima, Japan, is accounted for under the equity method of accounting. All significant intercompany transactions have been eliminated. These interim financial statements should be read in conjunction with the consolidated financial statements included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2016 and reflect all normal recurring adjustments that are, in the opinion of management, necessary to present fairly our results of operations and financial position. Amounts reported in our Condensed Consolidated Statements of Operations are not necessarily indicative of amounts expected for the respective annual periods or any other interim period, in particular due to the effect of seasonal changes and weather conditions that typically affect our sales into paving, roadmarking, roofing, and construction applications. In particular, sales volumes into these applications are generally higher in the second and third quarter of the calendar year as warm and dry weather is more conducive to paving and roofing activity.

Significant Accounting Policies. Our significant accounting policies have been disclosed in Note 1 Description of Business, Basis of Presentation, and Significant Accounting Policies in our most recent Annual Report on Form 10-K. There have been no other changes to the accounting policies, which are disclosed in our most recent Annual Report on Form 10-K. The accompanying unaudited Condensed Consolidated Financial Statements we present in this report have been prepared in accordance with our policies.

Use of Estimates. The preparation of these Condensed Consolidated Financial Statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the Condensed Consolidated Financial Statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Significant items subject to such estimates and assumptions include:

- the useful lives of long-lived assets;
- estimates of fair value for assets acquired and liabilities assumed in business combinations;
- allowances for doubtful accounts and sales returns;



the valuation of derivatives, deferred tax assets, property, plant and equipment, intangible assets, inventory, investments, and share-based compensation; and liabilities for employee benefit obligations, environmental matters, asset retirement obligations, income tax uncertainties, and other contingencies.

Income Tax in Interim Periods. We conduct operations in separate legal entities in different jurisdictions. As a result, income tax amounts are reflected in these Condensed Consolidated Financial Statements for each of those jurisdictions. Tax laws and tax rates vary substantially in these jurisdictions and are subject to change based on the political and economic climate in those countries. We file our tax returns in accordance with our interpretations of each jurisdiction's tax laws. We record our tax provision or benefit on an interim basis using the estimated annual effective tax rate. This rate is applied to the current period ordinary income or loss to determine the income tax provision or benefit allocated to the interim period.

Losses from jurisdictions for which no benefit can be realized and the income tax effects of unusual and infrequent items are excluded from the estimated annual effective tax rate. Valuation allowances are provided against the future tax benefits that arise from the losses in jurisdictions for which there is uncertainty that they may be realized. The effects of unusual and infrequent items are recognized in the impacted interim period as discrete items.

The estimated annual effective tax rate may be significantly affected by nondeductible expenses and by our projected earnings mix by tax jurisdiction. Adjustments to the estimated annual effective income tax rate are recognized in the period during which such estimates are revised.

We have established valuation allowances against a variety of deferred tax assets, including net operating loss carryforwards, foreign tax credits and other income tax credits. Valuation allowances take into consideration our expected ability to realize these deferred tax assets and reduce the value of such assets to the amount that is deemed more likely than not to be recoverable. Our ability to realize these deferred tax assets is dependent on achieving our forecast of future taxable operating income over an extended period of time. We review our forecast in relation to actual results and expected trends on a quarterly basis. If we fail to achieve our operating income targets, we may change our assessment regarding the recoverability of our net deferred tax assets and such change could result in a valuation allowance being recorded against some or all of our net deferred tax assets. A change in our valuation allowance would impact our income tax benefit (expense) and our stockholders' equity and could have a significant impact on our results of operations or financial condition in future periods.

## 2. New Accounting Pronouncements

### Accounting Standards Adopted in the Current Period

We have implemented all new accounting pronouncements that are in effect and that management believes would materially affect our financial statements.

In July 2015, the Financial Accounting Standards Board (the "FASB") issued ASU No. 2015-11, Inventory (Topic 330): Simplifying the Measurement of Inventory. This standard changes the measurement principle for inventory from the lower of cost or market to the lower of cost or net realizable value. ASU 2015-11 defines net realizable value as the estimated selling price in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. The guidance must be applied on a prospective basis and is effective for periods beginning after December 15, 2016, with early adoption permitted. We adopted ASU 2015-11 as of January 1, 2017 and there was no material impact to our consolidated financial statements.

In March 2016, the FASB issued ASU 2016-09, Improvements to Employee Share-Based Payment Accounting (Topic 817). The ASU changes seven aspects of the accounting for share-based payment award transactions, including: (1) accounting for income taxes; (2) classification of excess tax benefits on the statement of cash flows; (3) forfeitures; (4) minimum statutory tax withholding requirements; (5) classification of employee taxes paid on the statement of cash flows when an employer withholds shares for tax-withholding purposes; (6) practical expedient - expected term (nonpublic only); and (7) intrinsic value (nonpublic only). The standard is effective for fiscal years, and interim periods within those years, beginning after December 15, 2016, and early adoption was permitted. We adopted ASU 2016-09 as of January 1, 2017 and there was no material impact to our consolidated financial statements. Prior to January 1, 2017, the employee share-based compensation expense was recorded net of estimated forfeiture rates and subsequently adjusted at the vesting date, as appropriate. On a go forward basis, we elected to recognize actual forfeitures by reducing the employee share-based compensation expense in the same period as the forfeitures occur.

### New Accounting Standards to be Adopted in Future Periods

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers, updated by ASU No. 2015-14 Deferral of the Effective Date, which provides a single comprehensive model for entities to use in accounting

for revenue arising from contracts with customers and will supersede most current revenue recognition guidance. In August 2015, the effective date for the standard was deferred by one year and the standard is now effective for public entities for annual and interim periods beginning after December 15, 2017. Early adoption is permitted based on the original effective date. We plan to adopt ASU No. 2014-09 and its amendment on a modified retrospective basis on January 1, 2018. While we are currently assessing the impact of the new standard, our revenue is primarily generated from the sale of finished product to customers. Those sales predominantly contain a single delivery element and revenue is recognized at a single point in time, when ownership and risk of loss transfers. These are largely un-impacted by the new standard. We are still analyzing the quantitative

impact of adoption, but we do not currently expect it to have a material impact on our consolidated financial position or results of operations. Although we do expect that our disclosures in our notes to consolidated financial statements related to revenue recognition will be expanded under the new standard. As we complete our overall assessment, we are identifying and preparing to implement changes to our accounting policies and practices, business processes, systems and controls to support the new revenue recognition and disclosure requirements. Our assessment will be completed during fiscal year 2017.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842). This standard requires that an entity must recognize in the statement of financial position a liability to make lease payments (the lease liability) and a right-of-use asset representing its right to use the underlying asset for the lease term. For leases with a term of twelve months or less, a lessee is permitted to make an accounting policy election by class of underlying asset not to recognize lease assets and liabilities. The standard is effective for fiscal years, and interim periods within those years, beginning after December 15, 2018 and early adoption is permitted. Our evaluation of this standard is currently ongoing and therefore, the effects of this standard on our financial position, results of operations and cash flows are not yet known.

In August 2016, the FASB issued ASU 2016-15, Statement of Cash Flows (Topic 230). The ASU addresses eight specific cash flow issues with the objective of reducing the existing diversity in practice. The standard is effective for fiscal years, and interim periods within those years, beginning after December 15, 2017, and early adoption is permitted. Our evaluation of this standard is currently ongoing and therefore, the effects of this standard on our financial position, results of operations and cash flows are not yet known.

In January 2017, the FASB issued ASU 2017-04, Intangibles-Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment. This standard is effective for annual or interim goodwill impairment tests in fiscal years beginning after December 15, 2019, and early adoption is permitted for annual or interim goodwill impairment tests performed on testing dates after January 1, 2017. Our evaluation of this standard is currently ongoing.

In March 2017, the FASB issued ASU 2017-07, Compensation-Retirement Benefits (Topic 715)-Improving the Presentation of Net Periodic Pension Cost and Net Periodic Post-retirement Benefit Cost. The standard is effective for fiscal years, and interim periods within those years, beginning after December 15, 2017, and early adoption is permitted as of the beginning of a year for which financial statements (interim and annual) have not been issued. The other components of net benefit cost are required to be presented in the income statement separately from the service cost component. Our service costs were \$4.8 million and \$4.6 million for the nine months ended September 30, 2017 and 2016, respectively. Our evaluation of this standard is currently ongoing and we will adopt ASU 2017-07 effective on January 1, 2018.

In August 2017, the FASB issued ASU 2017-12, Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities. This standard is effective for fiscal years beginning after December 15, 2018, and early adoption is permitted for any interim period after issuance of the ASU. Our evaluation of this standard is currently ongoing.

### 3. Share-Based Compensation

We account for share-based awards under the provisions of ASC 718, Compensation—Stock Compensation.

Accordingly, share-based compensation cost is measured at the grant date based on the fair value of the award and we expense these costs using the straight-line method over the requisite service period. Share-based compensation expense was \$2.2 million and \$2.1 million for the three months ended September 30, 2017 and 2016, respectively, and \$7.4 million and \$7.3 million for the nine months ended September 30, 2017 and 2016, respectively.

## 4. Detail of Certain Balance Sheet Accounts

|  | September<br>30, 2017 | December<br>31, 2016 |
|--|-----------------------|----------------------|
|  | (In thousands)        |                      |
| Inventories of products:                           |                       |                      |
| Finished products                                  | \$273,948             | \$248,143            |
| Work in progress                                   | 4,893                 | 5,648                |
| Raw materials                                      | 93,816                | 86,864               |
| Inventories of products, gross                     | 372,657               | 340,655              |
| Inventory reserves                                 | (9,826 )              | (12,659 )            |
| Total inventories of products, net                 | \$362,831             | \$327,996            |
| Intangible assets:                                 |                       |                      |
| Contractual agreements                             | \$263,882             | \$258,646            |
| Technology   | 146,181               | 145,320              |
| Customer relationships                             | 60,480                | 59,977               |
| Tradenames/trademarks                              | 78,828                | 77,666               |
| Software   | 51,990                | 42,535               |
| Intangible assets                                  | 601,361               | 584,144              |
| Less accumulated amortization:                     |                       |                      |
| Contractual agreements                             | 38,778                | 20,757               |
| Technology   | 50,780                | 44,698               |
| Customer relationships                             | 32,965                | 31,863               |
| Tradenames/trademarks                              | 33,903                | 25,363               |
| Software   | 28,188                | 22,265               |
| Total accumulated amortization                     | 184,614               | 144,946              |
| Intangible assets, net of accumulated amortization | \$416,747             | \$439,198            |
| Other payables and accruals:                       |                       |                      |
| Employee related                                   | \$36,638              | \$33,947             |
| Interest payable                                   | 28,179                | 10,135               |
| Property, plant, and equipment accruals            | 15,530                | 26,260               |
| Other  | 71,509                | 60,056               |
| Total other payables and accruals                  | \$151,856             | \$130,398            |
| Other long-term liabilities:                       |                       |                      |
| Pension and other post-retirement benefits         | \$138,597             | \$138,188            |
| Other  | 29,542                | 32,151               |
| Total other long-term liabilities                  | \$168,139             | \$170,339            |

Changes in accumulated other comprehensive loss by component were as follows:

|   | Cumulative<br>Foreign<br>Currency<br>Translation | Net<br>Unrealized<br>Gain<br>(Loss) on<br>Cash Flow<br>Hedges | Net<br>Unrealized<br>Loss on<br>Net<br>Investment<br>Hedges | Benefit<br>Plans<br>Liability,<br>Net of<br>Tax | Total       |
|---|--|---|---|---|-------------|
|   | (In thousands)                                   |   |   |   |             |
| December 31, 2015   | \$(65,995)                                       | \$ —  | \$ (1,926 )   | \$(70,647)                                      | \$(138,568) |
| Other comprehensive income (loss) before reclassifications              | 27,311   | (5,354 )  | —   | —   | 21,957      |
| Amounts reclassified from accumulated other comprehensive income (loss) | —  | —   | —   | —   | —           |
| Net other comprehensive income (loss) for the year                      | 27,311   | (5,354 )  | —   | —   | 21,957      |
| September 30, 2016  | \$(38,684)                                       | \$ (5,354 )   | \$ (1,926 )   | \$(70,647)                                      | \$(116,611) |
| December 31, 2016   | \$(72,731)                                       | \$ 515  | \$ (1,926 )   | \$(84,388)                                      | \$(158,530) |
| Other comprehensive income (loss) before reclassifications              | 60,691   | (145 )  | —   | —   | 60,546      |
| Amounts reclassified from accumulated other comprehensive income        | —  | 879   | —   | —   | 879         |
| Net other comprehensive income for the year                             | 60,691   | 734   | —   | —   | 61,425      |
| September 30, 2017  | \$(12,040)                                       | \$ 1,249  | \$ (1,926 )   | \$(84,388)                                      | \$(97,105 ) |

## 5. Earnings Per Share (“EPS”)

Basic EPS is computed by dividing net income attributable to Kraton by the weighted-average number of shares outstanding during the period. Diluted EPS is computed by dividing net income attributable to Kraton by the diluted weighted-average number of shares outstanding during the period and, accordingly, reflects the potential dilution that could occur if securities or other agreements to issue common stock, such as stock options, were exercised, settled or converted into common stock and were dilutive. The diluted weighted-average number of shares used in our diluted EPS calculation is determined using the treasury stock method.

The calculations of basic and diluted EPS are as follows:

|   | Three Months Ended<br>September 30, 2017      |  |                          | Three Months Ended<br>September 30, 2016      |  |                          |
|---|---|--|--------------------------|---|--|--------------------------|
|   | Net Loss<br>Attributable<br>to<br>Kraton      | Weighted<br>Average<br>Shares<br>Outstanding | Loss<br>Per<br>Share     | Net<br>Income<br>Attributable<br>to<br>Kraton | Weighted<br>Average<br>Shares<br>Outstanding | Earnings<br>Per<br>Share |
|   | (In thousands, except per share data)         |  |                          |   |  |                          |
| <b>Basic:</b>   |   |  |                          |   |  |                          |
| As reported   | \$ (4,033)                                    | 31,223                                       |                          | \$ 15,560                                     | 30,874                                       |                          |
| Amounts allocated to unvested restricted shares           | 77  | (598 )                                       |                          | (329 )  | (653 )                                       |                          |
| Amounts available to common stockholders                  | (3,956 )                                      | 30,625                                       | \$ (0.13)                | 15,231  | 30,221                                       | \$ 0.50                  |
| <b>Diluted:</b>   |   |  |                          |   |  |                          |
| Amounts allocated to unvested restricted shares           | (77 )   | 598  |                          | 329   | 653  |                          |
| Non participating share units                             | —   | —  |                          | —   | 205  |                          |
| Stock options added under the treasury stock method       | —   | —  |                          | —   | 357  |                          |
| Amounts reallocated to unvested restricted shares         | 77  | (598 )                                       |                          | (323 )  | (653 )                                       |                          |
| Amounts available to stockholders and assumed conversions | \$ (3,956)                                    | 30,625                                       | \$ (0.13)                | \$ 15,237                                     | 30,783                                       | \$ 0.49                  |
|   | Nine Months Ended September<br>30, 2017       |  |                          | Nine Months Ended September<br>30, 2016       |  |                          |
|   | Net<br>Income<br>Attributable<br>to<br>Kraton | Weighted<br>Average<br>Shares<br>Outstanding | Earnings<br>Per<br>Share | Net<br>Income<br>Attributable<br>to<br>Kraton | Weighted<br>Average<br>Shares<br>Outstanding | Earnings<br>Per<br>Share |
|   | (In thousands, except per share data)         |  |                          |   |  |                          |
| <b>Basic:</b>   |   |  |                          |   |  |                          |
| As reported   | \$ 27,941                                     | 31,151                                       |                          | \$ 111,048                                    | 30,809                                       |                          |
| Amounts allocated to unvested restricted shares           | (541 )  | (603 )                                       |                          | (2,422 )                                      | (672 )                                       |                          |
| Amounts available to common stockholders                  | 27,400  | 30,548                                       | \$ 0.90                  | 108,626                                       | 30,137                                       | \$ 3.60                  |
| <b>Diluted:</b>   |   |  |                          |   |  |                          |
| Amounts allocated to unvested restricted shares           | 541   | 603  |                          | 2,422   | 672  |                          |
| Non participating share units                             | —   | 175  |                          | —   | 208  |                          |
| Stock options added under the treasury stock method       | —   | 283  |                          | —   | 212  |                          |
| Amounts reallocated to unvested restricted shares         | (533 )  | (603 )                                       |                          | (2,390 )                                      | (672 )                                       |                          |
| Amounts available to stockholders and assumed conversions | \$ 27,408                                     | 31,006                                       | \$ 0.88                  | \$ 108,658                                    | 30,557                                       | \$ 3.56                  |

## 6. Long-Term Debt

Long-term debt consists of the following:

|                                    | September 30, 2017 |            |                     |             | December 31, 2016 |            |                     |             |
|------------------------------------|--------------------|------------|---------------------|-------------|-------------------|------------|---------------------|-------------|
|                                    | Principal          | Discount   | Debt Issuance Costs | Total       | Principal         | Discount   | Debt Issuance Costs | Total       |
|                                    | (In thousands)     |            |                     |             |                   |            |                     |             |
| USD Tranche                        | \$500,000          | \$(14,173) | \$(14,793)          | \$471,034   | \$1,278,000       | \$(34,085) | \$(31,662)          | \$1,212,253 |
| Euro Tranche                       | 281,005            | —          | (3,795)             | 277,210     | —                 | —          | —                   | —           |
| 10.5% Senior Notes                 | 440,000            | (13,710)   | (14,889)            | 411,401     | 440,000           | (15,038)   | (16,329)            | 408,633     |
| 7.0% Senior Notes                  | 400,000            | —          | (7,593)             | 392,407     | —                 | —          | —                   | —           |
| ABL Facility                       | —                  | —          | —                   | —           | —                 | —          | —                   | —           |
| KFPC Loan Agreement                | 146,451            | —          | (215)               | 146,236     | 115,854           | —          | (257)               | 115,597     |
| Capital lease obligation           | 2,339              | —          | —                   | 2,339       | 3,042             | —          | —                   | 3,042       |
| Total debt                         | 1,769,795          | (27,883)   | (41,285)            | 1,700,627   | 1,836,896         | (49,123)   | (48,248)            | 1,739,525   |
| Less current portion of total debt | 33,553             | —          | —                   | 33,553      | 41,825            | —          | —                   | 41,825      |
| Long-term debt                     | \$1,736,242        | \$(27,883) | \$(41,285)          | \$1,667,074 | \$1,795,071       | \$(49,123) | \$(48,248)          | \$1,697,700 |

Senior Secured Term Loan Facility. In January 2016, we entered into a senior secured term loan facility (the “Term Loan Facility”) pursuant to which Kraton Polymers LLC (the “U.S. Term Loan Borrower”) made U.S. dollar denominated term loan borrowings in an aggregate principal amount of \$1,350.0 million (the “USD Tranche”). On August 16, 2017, we entered into a Fourth Amendment (the “Fourth Amendment”) to the credit agreement governing the Term Loan Facility (as amended, the “Credit Amendment”) pursuant to which Kraton Polymers Holdings B.V., a wholly-owned Dutch subsidiary of Kraton Corporation (the “Euro Term Loan Borrower” and, together with the U.S. Term Loan Borrower, the “Term Loan Borrowers”), borrowed a new tranche of term loans denominated in Euros in an aggregate principal amount equal to €260.0 million (the “Euro Tranche”), or \$305.0 million (converted at the August 16, 2017 exchange rate). The proceeds from borrowings under the Euro Tranche were used, together with available cash, to pay down \$366.0 million of the outstanding borrowings under the USD Tranche. As of September 30, 2017, we had \$500.0 million in borrowings under the USD Tranche and €238.0 million, or \$281.0 million (converted at the September 30, 2017 exchange rate), in borrowings under the Euro Tranche. The outstanding borrowings under the USD Tranche also reflect prepayments in the amount of \$72.0 million during the three months ended March 31, 2016 using proceeds received from the sale of our compounding business, and a prepayment in the amount of \$392.0 million during the three months ended March 31, 2017, using the proceeds received in connection with the offering of the 7.0% Senior Notes (see below description of borrowings).

The maturity date of the Term Loan Facility is January 6, 2022. Subject to compliance with certain covenants and other conditions, contained within the Credit Agreement, the Term Loan Borrowers have the option to borrow up to \$350.0 million of incremental term loans plus an additional amount subject to a senior secured net leverage ratio. Borrowings under the USD Tranche bear interest at a rate per annum equal to an applicable margin, plus, at our option, either (a) an adjusted LIBOR rate (subject to a 1.0% floor) determined by reference to the costs of funds for U.S. dollar deposits for the interest period relevant to such borrowing adjusted for statutory reserve requirements or (b) an alternate base rate (subject to a 2.0% floor) determined by reference to the highest of (1) the prime rate of Credit Suisse AG, (2) the federal funds effective rate plus 0.5% and (3) the one month adjusted LIBOR rate plus 1.0% per annum. Pursuant to the Fourth Amendment, the applicable margins for adjusted LIBOR rate and alternate base rate borrowings under the USD Tranche were decreased from 4.0% to 3.0% for adjusted LIBOR rate borrowings and 3.0% to 2.0% for alternate base rate borrowings, respectively. Borrowings under the Euro Tranche bear interest at an adjusted EURIBOR rate (subject to a 0.75% floor) determined by reference to the costs of funds for Euro deposits for the interest period relevant to such borrowing adjusted for statutory reserve requirements plus 2.5%. We are also required to pay customary agency fees in connection with the Term Loan Facility. As of the date of this filing, the



effective interest rate for the USD Tranche is LIBOR plus 3.0% and the effective interest rate for the Euro Tranche is 3.25%.

Voluntary prepayments on the Term Loan Facility may be made without premium or penalty other than customary “breakage” costs with respect to LIBOR or EURIBOR loans and other than a 1.0% of the Term Loan Facility. Pursuant to the Fourth Amendment, the period during which such prepayment premium may be required under each of the Euro Tranche and the USD Tranche was reset until six months after the effective date of the Fourth Amendment. In the event we have consolidated excess cash flow for any fiscal year, we are required to prepay an amount of borrowings under the Term Loan Facility equal to at least 50.0% of such cash flow by the 90th day after the end of the fiscal year. The prepayment percentage is reduced to 25.0% if our senior secured net leverage ratio is under 2.5:1.0 or 0% if our senior secured net leverage ratio is below 2.0:1.0.

The USD Tranche is guaranteed by Kraton Corporation and certain of our wholly-owned domestic subsidiaries (the “U.S. Term Loan Guarantors”). The Euro Tranche is guaranteed by each of the U.S. Term Loan Guarantors, the U.S. Term Loan Borrower and certain other Dutch subsidiaries of Kraton Corporation (the “Dutch Term Loan Guarantors”), including those Dutch subsidiaries that are also either a borrower or a guarantor under the Euro tranche facility under the ABL Facility.

The obligations under the Term Loan Facility are secured, subject to certain exceptions, by (i) a first-lien pledge of 100% of the equity interests held by Kraton Corporation, the U.S. Term Loan Borrower and the other U.S. Term Loan Guarantors in their respective first-tier domestic subsidiaries and 65% of the equity interests directly held by such entities in their first-tier foreign subsidiaries, (ii) a first-priority security interest in substantially all tangible and intangible assets of Kraton Corporation, the U.S. Term Loan Borrower and the other U.S. Term Loan Guarantors, other than the ABL Priority Collateral (as defined below), and (iii) a perfected second-priority security interest in all of the ABL Priority Collateral. The Euro Tranche is also secured by a first-lien pledge of 100% of the equity interests in the Euro Term Loan Borrower and the Dutch Term Loan Guarantors and a first-lien pledge of any intercompany notes or instruments evidencing intercompany indebtedness owed to the Euro Term Loan Borrower or the guarantors of the Euro Tranche that are not U.S. Term Loan Guarantors.

The Term Loan Facility contains a number of customary affirmative and negative covenants. As of the date of this filing, we were in compliance with the covenants under the Term Loan Facility.

**10.5% Senior Notes due 2023.** Kraton Polymers LLC and its wholly-owned financing subsidiary Kraton Polymers Capital Corporation issued \$440.0 million aggregate principal amount of 10.5% Senior Notes due 2023 (the “10.5% Senior Notes”) that mature on April 15, 2023. The 10.5% Senior Notes are general unsecured, senior obligations and are unconditionally guaranteed on a senior unsecured basis by each of Kraton Corporation and certain of our wholly-owned domestic subsidiaries. We pay interest on the 10.5% Senior Notes at 10.5% per annum, semi-annually in arrears on April 15 and October 15 of each year. Prior to October 15, 2018, we may redeem up to 40.0% of the aggregate principal amount of the 10.5% Senior Notes with the net proceeds of certain equity offerings at a redemption price equal to 110.5% of the principal amount of the 10.5% Senior Notes plus accrued and unpaid interest, if any, to the date of redemption. At any time prior to October 15, 2018, we may redeem some or all of the 10.5% Senior Notes at a redemption price equal to 100.0% of the principal amount of the notes redeemed plus accrued and unpaid interest, if any, to the redemption date and a “make-whole” premium. On and after October 15, 2018, 2019, 2020, and 2021 and thereafter, we may redeem all or a part of the 10.5% Senior Notes for 107.875%, 105.250%, 102.625%, and 100.0% of the principal amount, respectively.

**7.0% Senior Notes due 2025.** Kraton Polymers LLC and its wholly-owned financing subsidiary Kraton Polymers Capital Corporation issued \$400.0 million aggregate principal amount of 7.0% Senior Notes due 2025 (the “7.0% Senior Notes”) in March 2017, which mature on April 15, 2025. The 7.0% Senior Notes are general unsecured, senior obligations and are unconditionally guaranteed on a senior unsecured basis by each of Kraton Corporation and certain of our wholly-owned domestic subsidiaries. We pay interest on the Senior Notes at 7.0% per annum, semi-annually in arrears on January 15 and July 15 of each year. We made the first interest payment on July 15, 2017. Prior to April 15, 2020, we may redeem up to 40.0% of the aggregate principal amount of the 7.0% Senior Notes with the net proceeds of certain equity offerings at a redemption price equal to 107.0% of the principal amount of the 7.0% Senior Notes plus accrued and unpaid interest, if any, to, but excluding, the date of redemption. At any time prior to April 15, 2020, we may redeem some or all of the 7.0% Senior Notes at a redemption price equal to 100.0% of the principal amount of the notes redeemed plus accrued and unpaid interest, if any, to, but excluding, the redemption date and a

“make-whole” premium. On and after April 15, 2020, 2021, and 2022 and thereafter, we may redeem all or a part of the 7.0% Senior Notes for 105.250%, 102.625%, and 100.0% of the principal amount, respectively.

ABL Facility. In January 2016, we entered into an amended and restated asset-based revolving credit facility that provides financing of up to \$250.0 million (the “ABL Facility”). We did not have any borrowings drawn under this facility as of September 30, 2017. Borrowing availability under the ABL Facility is subject to borrowing base limitations based on the level of receivables and inventory available for security. Revolver commitments under the ABL Facility consist of U.S. and Dutch revolving credit facility commitments, and the terms of the ABL Facility require the U.S. revolver commitment comprises at least 60.0% of the commitments under the ABL Facility.

The ABL Facility provides that we have the right at any time to request up to \$100.0 million of additional commitments under this facility, provided that we satisfy additional conditions described in the credit agreement and provided further that the U.S. revolver commitment comprises at least 60.0% of the commitments after giving effect to such increase. We cannot guarantee that all of the lending counterparties contractually committed to fund a revolving credit draw request will actually fund future requests, although we currently believe that each of the counterparties would meet their funding requirements. The ABL Facility terminates on January 6, 2021; however, we may, from time to time, request that the lenders extend the maturity of their commitments; provided among other things, that at no time shall there be more than four different maturity dates under the ABL Facility.

Borrowings under the ABL Facility bear interest at a rate per annum equal to the applicable margin plus (1) a base rate determined by reference to the prime rate of Bank of America, N.A. in the jurisdiction where the currency is being funded or (2) LIBOR for loans that bear interest based on LIBOR. The initial applicable margin for borrowings under the ABL Facility is 0.5% with respect to U.S. base rate borrowings and 1.5% with respect to LIBOR or borrowings made on a European base rate. The applicable margin ranges from 0.5% to 1.0% with respect to U.S. base rate borrowings and 1.5% to 2.0% for LIBOR or borrowings made on a European base rate per annum based on the average excess availability for the prior fiscal quarter. In addition to paying interest on outstanding principal amounts under the ABL Facility, we are required to pay a commitment fee in respect of the un-utilized commitments at an annual rate of 0.375%.

All of the obligations under the ABL Facility are guaranteed by Kraton Corporation and certain of our wholly-owned domestic subsidiaries (the “ABL U.S. Guarantors”). Certain foreign obligations under the ABL Facility are also guaranteed by certain other wholly-owned subsidiaries of Kraton Corporation (the “ABL Dutch Guarantors”). In connection with the Fourth Amendment, on August 16, 2017, we entered into a First Amendment and Consent to the ABL Facility (the “ABL Amendment”). The ABL Amendment provides, among other things, that any foreign subsidiary of Kraton Corporation that becomes a guarantor under the Euro Tranche will also become a guarantor under the Euro tranche facility of the ABL Facility.

All obligations under the ABL Facility are secured, subject to certain exceptions, by (i) a first-priority security interest in, among other things, accounts, inventory and cash of the ABL U.S. Guarantors (the “ABL Priority Collateral”), and (ii) a perfected second-priority security interest in substantially all tangible and intangible assets of the ABL U.S. Guarantors that are not ABL Priority Collateral. Certain foreign obligations under the ABL Facility are also secured, subject to certain exceptions, by, a first priority security interest in, among other things, accounts, inventory and cash of the ABL Dutch Guarantors.

The ABL Facility contains a number of customary affirmative and negative covenants, including a financial covenant requiring us to maintain a minimum fixed charge coverage ratio of 1.0:1.0 if borrowing availability under the ABL Facility is below a specified amount. As of the date of this filing, we were in compliance with the covenants under the ABL Facility.

**KFPC Loan Agreement.** On July 17, 2014, KFPC entered into a syndicated loan agreement (the “KFPC Loan Agreement”) in the amount of 5.5 billion New Taiwan Dollars (“NTD”), or \$181.2 million (converted at the September 30, 2017 exchange rate), to provide additional funding to construct the hydrogenated styrenic block copolymer (“HSBC”) facility in Taiwan and to provide funding for working capital requirements and/or general corporate purposes.

The KFPC Loan Agreement is comprised of a NTD 4.29 billion Tranche A, or \$141.3 million (converted at the September 30, 2017 exchange rate), to fund KFPC’s capital expenditures, and a NTD 1.21 billion Tranche B, or \$39.9 million (converted at the September 30, 2017 exchange rate), to fund working capital requirements and/or general corporate purposes. As of September 30, 2017, NTD 4.4 billion, or \$146.5 million (converted at the September 30, 2017 exchange rate) was drawn on the KFPC Loan Agreement. The facility period of the KFPC Loan Agreement is five years from January 17, 2015 (the first drawdown date). KFPC was able to draw on the KFPC Loan Agreement for the first 28 months following the first drawdown date, which ended in May 2017. Subject to certain conditions, KFPC can request a two-year extension of the term of the KFPC Loan Agreement.

The total outstanding principal amount is payable in six semi-annual installments. The first installment payment was made on July 17, 2017 and each subsequent payment will be due every six months thereafter. The first five

installments will be in an amount equal to 10% of the outstanding principal amount and the final installment will be in an amount equal to the remaining 50% of the outstanding principal amount. In the event the extension period is granted, the final 50% of the outstanding principal amount shall be repaid in five equal semi-annual installments with the first installment due on the original final maturity date.

The KFPC Loan Agreement is subject to a variable interest rate composed of a fixed 0.8% margin plus the three-month or six-month fixing rate of the Taipei Interbank Offered Rate (depending on the interest period selected by KFPC in the drawdown request or the interest period notice), subject to a floor of 1.7%. Interest is payable on a monthly basis. For the three and nine months ended September 30, 2017, our effective interest rate for borrowings on the KFPC Loan Agreement was 1.8%.

The KFPC Loan Agreement contains certain financial covenants that change during the term of the KFPC Loan Agreement. The financial covenants include a maximum debt to equity ratio of 2.0:1.0 in 2017 and 1.2:1.0 in 2018; a minimum tangible net worth requirement of \$50.0 million through 2018, which will increase to \$100.0 million in 2019; and a minimum interest coverage ratio requirement of 5.0:1.0 commencing in 2017. Due to a waiver received from the majority of lenders we are no longer subject to the 2017 financial covenants. In each case, these covenants are calculated and tested on an annual basis at December 31<sup>st</sup> each year. Formosa Petrochemical Corporation and Kraton Polymers LLC are the guarantors of the KFPC Loan Agreement with each guarantor guaranteeing 50% of the indebtedness.

**Debt Issuance Costs.** We capitalize the debt issuance costs related to issuing long-term debt and amortize these costs using the effective interest method, except for costs related to revolving debt, which are amortized using the straight-line method. Amortization of debt issuance costs are recorded as a component of interest expense and the accelerated write-off of debt issuance costs in connection with refinancing activities are recorded as a component of loss on extinguishment of debt. In connection with our January 2017 repricing of our USD Tranche and our offering of 7.0% Senior Notes in March 2017, we deferred \$2.0 million and \$7.8 million of debt issuance costs, respectively. In connection with our August 2017 repricing of our USD Tranche and borrowings under our Euro Tranche, we deferred \$1.3 million and \$3.9 million of debt issuance costs, respectively. We recorded a \$33.7 million loss on extinguishment of debt related to previously capitalized deferred financing costs and original issue discount on our Term Loan Facility in connection with our \$758.0 million pay down of our Term Loan Facility during the nine months ended September 30, 2017.

We had net debt issuance cost of \$45.1 million as of September 30, 2017, of which \$3.8 million related to our ABL Facility is recorded as an asset (of which \$1.2 million was included in other current assets) and \$41.3 million is recorded as a reduction to long-term debt. We amortized \$1.9 million and \$1.8 million for the three months ended September 30, 2017 and 2016, respectively, and \$6.3 million and \$5.3 million during the nine months ended September 30, 2017 and 2016, respectively.

**Debt Maturities.** The remaining principal payments on our outstanding total debt as of September 30, 2017, are as follows:

|  | Principal<br>Payments<br>(In<br>thousands) |
|--|--|
| October 1, 2017 through September 30, 2018 | \$33,553                                   |
| October 1, 2018 through September 30, 2019 | 32,816                                     |
| October 1, 2019 through September 30, 2020 | 81,538                                     |
| October 1, 2020 through September 30, 2021 | 188  |
| October 1, 2021 through September 30, 2022 | 781,204                                    |
| Thereafter                                 | 840,496                                    |
| <b>Total debt</b>                          | <b>\$1,769,795</b>                         |

See Note 7 Fair Value Measurements, Financial Instruments, and Credit Risk for fair value information related to our long-term debt.

## 7. Fair Value Measurements, Financial Instruments, and Credit Risk

ASC 820, "Fair Value Measurements and Disclosures" defines fair value, establishes a consistent framework for measuring fair value and expands disclosure requirements about fair value measurements. ASC 820 requires entities to, among other things, maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.

ASC 820 defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date.

ASC 820 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect our market assumptions.

In accordance with ASC 820, these two types of inputs have created the following fair value hierarchy:

- Level 1—Inputs that are quoted prices (unadjusted) for identical assets or liabilities in active markets;
- Level 2—Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the asset or liability, including:
  - Quoted prices for similar assets or liabilities in active markets;
  - Quoted prices for identical or similar assets or liabilities in markets that are not active;
  - Inputs other than quoted prices that are observable for the asset or liability; and
  - Inputs that are derived principally from or corroborated by observable market data by correlation or other means; and
- Level 3—Inputs that are unobservable and reflect our assumptions used in pricing the asset or liability based on the best information available under the circumstances (e.g., internally derived assumptions surrounding the timing and amount of expected cash flows).

Recurring Fair Value Measurements. The following tables set forth by level within the fair value hierarchy our financial assets and liabilities that were accounted for at fair value on a recurring basis as of September 30, 2017 and December 31, 2016. These financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. Our assessment of the significance of a particular input to the fair value measurement requires judgment, which judgment may affect the valuation of their fair value and placement within the fair value hierarchy levels.

| Balance Sheet Location             |                        | Fair Value Measurements at Reporting Date Using |  |   |   |
|------------------------------------|------------------------|---|--|---|---|
|                                    |                        | September 30, 2017                              | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
|                                    |                        | (In thousands)                                  |  |   |   |
| Derivative asset – current         | Other current assets   | \$587   | \$—  | \$ 587  | \$ —                                      |
| Derivative asset – noncurrent      | Other long-term assets | 1,371   | —  | 1,371   | —   |
| Retirement plan asset – noncurrent | Other long-term asset  | 2,412   | 2,412  | —   | —   |
| Total                              |                        | \$4,370   | \$2,412  | \$ 1,958                                      | \$ —                                      |
| Balance Sheet Location             |                        | Fair Value Measurements at Reporting Date Using |  |   |   |
|                                    |                        | December 31, 2016                               | Quoted Prices  | Significant Other                             | Significant Unobservable                  |

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|                                    |                        |         | in<br>Active<br>Markets                    | Observable<br>Inputs<br>(Level 2) | Inputs<br>(Level 3) |  |   |
|------------------------------------|------------------------|---------|--|-----------------------------------|---------------------|--|---|
|                                    |                        |         | for<br>Identical<br>Assets<br>(Level<br>1) |                                   |                     |  |   |
|                                    |                        |         | (In thousands)                             |                                   |                     |  |   |
| Derivative asset – current         | Other current assets   | \$243   | \$—  | \$ 243                            | \$                  |  | — |
| Derivative asset – noncurrent      | Other long-term assets | 568     | —  | 568                               | —                   |  |   |
| Retirement plan asset – noncurrent | Other long-term assets | 1,894   | 1,894                                      | —                                 | —                   |  |   |
| Total                              |                        | \$2,705 | \$1,894                                    | \$ 811                            | \$                  |  | — |

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The following table presents the carrying values and approximate fair values of our long-term debt.

|  | September 30, 2017 |            | December 31, 2016 |             |
|--|--------------------|------------|-------------------|-------------|
|  | Carrying Value     | Fair Value | Carrying Value    | Fair Value  |
|  | (In thousands)     |            |                   |             |
| USD Tranche (significant other observable inputs – level 2)                        | \$500,000          | \$505,940  | \$1,278,000       | \$1,293,975 |
| Euro Tranche (significant other observable inputs – level 2)                       | \$281,005          | \$285,571  | \$—               | \$—         |
| 10.5% Senior Notes (quoted prices in active market for identical assets – level 1) | \$440,000          | \$504,975  | \$440,000         | \$501,600   |
| 7.0% Senior Notes (quoted prices in active market for identical assets – level 1)  | \$400,000          | \$430,060  | \$—               | \$—         |
| Capital lease obligation (significant other observable inputs – level 2)           | \$2,339            | \$2,339    | \$3,042           | \$3,042     |
| KFPC Loan Agreement (significant unobservable inputs – level 3)                    | \$146,451          | \$146,451  | \$115,854         | \$115,854   |

The KFPC Loan Agreement is a variable rate instrument, and as such, the fair value approximates the carrying value.

#### Financial Instruments

**Interest Rate Swap Agreements.** Periodically, we enter into interest rate swap agreements to hedge or otherwise protect against interest rate fluctuation on a portion of our variable rate debt. These interest rate swap agreements are designated as cash flow hedges on our exposure to the variability of future cash flows.

In an effort to convert a substantial portion of our future interest payments pursuant to the USD Tranche to a fixed interest rate, in February and March 2016 we entered into several interest rate swap agreements with an aggregate notional value of \$925.4 million, effective dates of January 3, 2017 and maturity dates of December 31, 2020. We exited out of \$8.4 million, \$31.0 million, \$57.2 million, \$308.8 million, and \$20.0 million of our interest rate swaps on March 24, 2017, March 31, 2017, June 30, 2017, August 31, 2017, and September 29, 2017, respectively. As a result, at September 30, 2017 the total notional value of our interest rate swaps was \$500.0 million. We recorded an unrealized gain of \$1.1 million and \$1.1 million for the three and nine months ended September 30, 2017, respectively, and an unrealized loss of \$8.0 million during the nine months ended September 30, 2016, in accumulated other comprehensive income (loss) related to the effective portion of these interest rate swap agreements.

**Foreign Currency Hedges.** Periodically, we enter into foreign currency agreements to hedge or otherwise protect against fluctuations in foreign currency exchange rates. These agreements do not qualify for hedge accounting and gains/losses resulting from both the up-front premiums and/or settlement of the hedges at expiration of the agreements are recognized in the period in which they are incurred. We settled these hedges and recorded a loss of \$2.2 million and a loss of \$0.1 million for the three months ended September 30, 2017 and 2016, respectively, and a gain of \$0.9 million and \$1.4 million for the nine months ended September 30, 2017 and 2016, respectively, which are recorded in cost of goods sold in the Condensed Consolidated Statements of Operations. These contracts are structured such that these gains/losses from the mark-to-market impact of the hedging instruments materially offset the underlying foreign currency exchange gains/losses to reduce the overall impact of foreign currency exchange movements throughout the period.

#### Credit Risk

The use of derivatives creates exposure to credit risk in the event that the counterparties to these instruments fail to perform their obligations under the contracts, which we seek to minimize by limiting our counterparties to major financial institutions with acceptable credit ratings and by monitoring the total value of positions with individual counterparties.

We analyze our counterparties' financial condition prior to extending credit, and we establish credit limits and monitor the appropriateness of those limits on an ongoing basis. We also obtain cash, letters of credit, or other acceptable forms of security from customers to provide credit support, where appropriate, based on our financial analysis of the customer and the contractual terms and conditions applicable to each transaction.

#### 8. Restructuring Charges

During the three months ended March 31, 2017, we announced plans to stop producing USBC product grades in Paulinia, Brazil, and streamline production for producing Cariflex™ polyisoprene latex. We recorded \$1.0 million of

severance, all of which was paid during the three months ended March 31, 2017 and which was primarily recorded in cost of goods sold.

## 9. Income Taxes

Income tax provision was a benefit of \$2.2 million and an expense \$2.2 million for the three months ended September 30, 2017 and 2016, respectively. Income tax provision was an expense of \$2.9 million and a benefit \$83.0 million for the nine months ended September 30, 2017 and 2016, respectively. Our effective tax rate was 30.9% and 12.9% for the three months ended September 30, 2017 and 2016, respectively, and 11.3% for the nine months ended September 30, 2017. Given the level of our pre-tax book income for the nine months ended September 30, 2016 and the release of a significant portion of our valuation allowance, our effective tax rate for the nine months ended September 30, 2016 is not meaningful. Our effective tax rates differ from the U.S. corporate statutory tax rate of 35.0%, primarily due to the mix of our pretax income or loss generated in various jurisdictions, permanent items, uncertain tax positions, and changes in our valuation allowances. During the nine months ended September 30, 2017 and 2016, our pretax earnings in the Netherlands, Sweden, and Finland decreased our effective tax rate due to the statutory rates of 25.0%, 22.0%, and 20.0%, respectively.

The provision for income taxes differs from the amount computed by applying the U.S. corporate statutory income tax rate to income (loss) before income taxes for the reasons set forth below.

|                                     | Three Months    |           | Nine Months     |           |
|-------------------------------------|-----------------|-----------|-----------------|-----------|
|                                     | Ended September |           | Ended September |           |
|                                     | 30,             | 30,       | 30,             | 30,       |
|                                     | 2017            | 2016      | 2017            | 2016      |
|                                     | (In thousands)  |           |                 |           |
| Income taxes at the statutory rate  | \$2,455         | \$(5,964) | \$(8,985)       | \$(9,181) |
| State taxes, net of federal benefit | 25              | (1,114)   | 117             | (521)     |
| Foreign tax rate differential       | (3,403)         | 2,436     | 2,263           | 6,018     |
| Permanent differences               | 1,464           | 2,934     | 3,190           | 265       |
| Uncertain tax positions             | 1,821           | (292)     | 666             | (928)     |
| Valuation allowance                 | 13              | (176)     | 330             | 87,404    |
| Return to provision adjustments     | (512)           | (33)      | (509)           | (33)      |
| Other                               | 302             | 11        | 21              | —         |
| Income tax benefit (expense)        | \$2,165         | \$(2,198) | \$(2,907)       | \$83,024  |
|                                     | Three Months    |           | Nine Months     |           |
|                                     | Ended September |           | Ended September |           |
|                                     | 30,             | 30,       | 30,             | 30,       |
|                                     | 2017            | 2016      | 2017            | 2016      |
| Income taxes at the statutory rate  | (35.0)%         | (35.0)%   | (35.0)%         | (35.0)%   |
| State taxes, net of federal benefit | (0.4)           | (6.5)     | 0.5             | (2.0)     |
| Foreign tax rate differential       | 48.5            | 14.3      | 8.8             | 22.9      |
| Permanent differences               | (20.9)          | 17.2      | 12.4            | 1.0       |
| Uncertain tax positions             | (26.0)          | (1.7)     | 2.6             | (3.5)     |
| Valuation allowance                 | (0.2)           | (1.0)     | 1.3             | 333.2     |
| Return to provision adjustments     | 7.3             | (0.2)     | (2.0)           | (0.1)     |
| Other                               | (4.2)           | —         | 0.1             | —         |
| Effective tax rate                  | (30.9)%         | (12.9)%   | (11.3)%         | 316.5%    |

Valuation allowances are recorded to reduce deferred tax assets when it is more likely than not that a tax benefit will not be realized. We consider all available material evidence, both positive and negative, in assessing the appropriateness of a valuation allowance for our deferred tax assets. In determining whether a valuation allowance is required during the period, we evaluate primarily (a) cumulative earnings and losses in recent years, (b) historical taxable income or losses as it relates to our ability to utilize operating loss and tax credit carryforwards within the expiration period, (c) trends indicating earnings or losses expected in future years along with our ability in prior years to reasonably project these future trends or operating results, (d) length of the carryback and carryforward period, and (e) prudent and feasible tax-planning strategies, particularly related to operational changes and the impact on the timing or taxability of relative amounts.

As of September 30, 2017 and December 31, 2016, we recorded a valuation allowance of \$44.4 million and \$44.7 million, respectively, against our net operating loss carryforwards and other deferred tax assets. We did not have a material change in our valuation allowances for the three months ended September 30, 2017. During the nine months ended September 30, 2016, we released \$56.2 million of the valuation allowances, of which \$87.4 million primarily related to our U.S. net operating loss carryforwards and other deferred tax assets, partially offset by \$31.2 million of new valuation allowances assumed in connection with the Arizona Chemical Acquisition.

Following the acquisition of Arizona Chemical on January 6, 2016, we released \$87.0 million of the valuation allowance related to the U.S. net operating loss carryforwards and other deferred tax assets. In assessing the appropriateness of the U.S. valuation allowance as of the acquisition date, we considered the significant cumulative earnings in recent years as well as consistent historical taxable income of our U.S. combined operations. Additionally, we consider our ability to utilize net operating loss carryforwards to offset future taxable income generated by our U.S. combined operations. Under U.S. tax law, we are permitted to utilize tax loss carryforwards as an offset to taxable income generated by members of our U.S. consolidated group, with the exception of a few separate state regulations. We do not expect any tax loss limitations under IRC §382 that would impact our utilization of the federal carryforwards in the future. We project that we will have sufficient combined pre-tax earnings in the U.S. to utilize net operating loss carryforwards within the expiration period. We maintain valuation allowance for carryforwards related to our foreign tax credits and certain state tax losses.

As of September 30, 2017 and December 31, 2016, we had total unrecognized tax benefits of \$24.4 million and \$24.5 million, respectively, related to uncertain tax positions, all of which, if recognized, would impact our effective tax rate. During the three and nine months ended September 30, 2017, we had a decrease of \$1.5 million and \$0.1 million, respectively, primarily related to our uncertain tax positions in the U.S. and Europe. During the three and nine months ended September 30, 2016, we had a decrease in uncertain tax positions of \$2.5 million and an increase of \$6.8 million primarily related to assumed uncertain tax positions in the U.S. in connection with the Arizona Chemical Acquisition. We recorded interest and penalties related to unrecognized tax benefits within the provision for income taxes.

We file income tax returns in the U.S. and foreign jurisdictions. For our U.S. federal income tax returns, the statute of limitations has expired through the tax year ended December 31, 2003. As a result of net operating loss carryforwards from 2004, the statute of limitations remains open for all years subsequent to 2003. In addition, open tax years for state and foreign jurisdictions remain subject to examination.

## 10. Commitments and Contingencies

### (a) Legal Proceedings

We received an initial notice from the tax authorities in Brazil during the fourth quarter of 2012 in connection with tax credits that were generated from the purchase of certain goods which were subsequently applied by us against taxes owed. The tax authorities are currently assessing R\$7.0 million, or \$2.2 million (converted at the September 30, 2017 exchange rate). We have appealed the assertion by the tax authorities in Brazil that the goods purchased were not eligible to earn the credits. While the outcome of this proceeding cannot be predicted with certainty, we do not expect this matter to have a material adverse effect upon our financial position, results of operations or cash flows.

As previously disclosed, on October 6, 2014, Taiwan-based LCY Chemical Corporation (“LCY”) filed a lawsuit against us in connection with our refusal to pay the \$25.0 million termination fee upon a termination of the definitive agreement governing Kraton's combination with the SBC operations of LCY. On July 23, 2015, LCY's lawsuit was

dismissed from the Delaware federal court on jurisdictional grounds. The statute of limitations governing LCY's claim under Delaware law expired in August 2017, and LCY is time-barred from reasserting its claim. Kraton did not incur any material adverse effect upon our financial position, results of operations or cash flows from the ultimate outcome of this matter.

We and certain of our subsidiaries, from time to time, are parties to various other legal proceedings, claims and disputes that have arisen in the ordinary course of business. These claims may involve significant amounts, some of which would not be covered by insurance. A substantial settlement payment or judgment in excess of our accruals could have a material adverse effect on our financial position, results of operations or cash flows. While the outcome of these proceedings cannot be predicted with certainty, we do not expect any of these existing matters, individually or in the aggregate, to have a material adverse effect upon our financial position, results of operations or cash flows.

(b) Asset Retirement Obligations.

The changes in the aggregate carrying amount of our asset retirement obligations are as follows:

|   | Nine Months<br>Ended September<br>30, |          |
|---|---------------------------------------|----------|
|   | 2017                                  | 2016     |
|   | (In thousands)                        |          |
| Beginning balance                                   | \$8,863                               | \$10,078 |
| Obligations assumed in Arizona Chemical Acquisition | —                                     | 1,908    |
| Additional accruals                                 | 439                                   | 2,146    |
| Accretion expense                                   | 241                                   | 303      |
| Obligations settled                                 | (3,065 )                              | (3,780 ) |
| Foreign currency translation, net                   | 484                                   | 138      |
| Ending Balance                                      | \$6,962                               | \$10,793 |

For a portion of our asset retirement obligations related to the decommissioning of the coal boilers at our Belpre, Ohio, facility, we have recorded a liability and corresponding receivable of \$1.4 million and \$3.8 million as of September 30, 2017 and 2016, respectively, pursuant to the indemnity included in the February 2001 separation agreement from Shell Chemicals.

(c) Environmental Obligations.

As of September 30, 2017 and 2016, we have recorded an environment obligation and corresponding receivable of \$3.3 million and \$3.1 million, respectively, relating to an indemnification agreement with International Paper, our Chemical segment's former owner.

There have been no other material changes to our Commitments and Contingencies disclosed in our most recently filed Annual Report on Form 10-K.

11. Employee Benefits

The components of net periodic benefit costs related to pension benefits are as follows:

|                                    | Three Months Ended September 30, |                   |               |                   | Nine Months Ended September 30, |                   |               |                   |
|------------------------------------|----------------------------------|-------------------|---------------|-------------------|---------------------------------|-------------------|---------------|-------------------|
|                                    | 2017                             |                   | 2016          |                   | 2017                            |                   | 2016          |                   |
|                                    | U.S.<br>Plans                    | Non-U.S.<br>Plans | U.S.<br>Plans | Non-U.S.<br>Plans | U.S.<br>Plans                   | Non-U.S.<br>Plans | U.S.<br>Plans | Non-U.S.<br>Plans |
|                                    | (In thousands)                   |                   |               |                   |                                 |                   |               |                   |
| Service cost                       | \$799                            | \$ 695            | \$771         | \$ 566            | \$2,399                         | \$ 1,998          | \$2,518       | \$ 1,642          |
| Interest cost                      | 1,832                            | 718               | 1,828         | 632               | 5,494                           | 2,093             | 5,514         | 2,264             |
| Expected return on plan assets     | (2,351 )                         | (811 )            | (2,344 )      | (698 )            | (7,052 )                        | (2,371 )          | (7,011 )      | (2,593 )          |
| Amortization of prior service cost | 905                              | 55                | 648           | 5                 | 2,715                           | 160               | 2,048         | 17                |
| Net periodic benefit cost          | \$1,185                          | \$ 657            | \$903         | \$ 505            | \$3,556                         | \$ 1,880          | \$3,069       | \$ 1,330          |

We made contributions of \$10.1 million and \$4.5 million to our pension plans in the nine months ended September 30, 2017 and 2016, respectively.

The components of net periodic benefit cost related to other post-retirement benefits are as follows:

|                                    | Three<br>Months<br>Ended<br>September<br>30,<br>2017 |              | Nine Months<br>Ended<br>September 30,<br>2016 |              |
|------------------------------------|--|--------------|---|--------------|
|                                    | U.S<br>Plans   | U.S<br>Plans | U.S<br>Plans                                  | U.S<br>Plans |
|                                    | (In thousands)                                       |              |   |              |
| Service cost                       | \$130  | \$135        | \$420   | \$405        |
| Interest cost                      | 348  | 350          | 1,028   | 1,050        |
| Amortization of prior service cost | 150  | 153          | 450   | 458          |
| Net periodic benefit cost          | \$628  | \$638        | \$1,898                                       | \$1,913      |

## 12. Industry Segments and Foreign Operations

Our operations are managed through two operating segments: (i) Polymer segment; and (ii) Chemical segment. In accordance with the provisions of ASC 280, "Segment Reporting," our chief operating decision maker has been identified as the President and Chief Executive Officer, who reviews operating results to make decisions about allocating resources and assessing performance for the entire company.

- Polymer Segment is comprised of our SBCs and other engineered polymers business.
- Chemical Segment is comprised of our pine-based specialty products business.

Our chief operating decision maker uses operating income (loss) as the primary measure of each segment's operating results in order to allocate resources and in assessing the company's performance. In accordance with ASC 280, Segment Reporting, we have presented operating income (loss) for each segment. The following table summarizes our operating results by segment. We do not have sales between segments.

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|   | Three Months Ended<br>September 30, 2017 |           |             | Three Months Ended<br>September 30, 2016 |                         |             |
|---|--|-----------|-------------|--|-------------------------|-------------|
|   | Polymer                                  | Chemical  | Total       | Polymer                                  | Chemical                | Total       |
|   | (In thousands)                           |           |             |  |                         |             |
| Revenue                                     | \$314,159                                | \$196,788 | \$510,947   | \$272,970                                | \$181,173               | \$454,143   |
| Cost of goods sold                          | 247,426                                  | 134,802   | 382,228     | 195,962                                  | 122,925                 | 318,887     |
| Gross profit                                | 66,733                                   | 61,986    | 128,719     | 77,008                                   | 58,248                  | 135,256     |
| Operating expenses:                         |  |           |             |  |                         |             |
| Research and development                    | 7,347                                    | 2,978     | 10,325      | 6,920                                    | 2,773                   | 9,693       |
| Selling, general, and administrative        | 24,242                                   | 18,337    | 42,579      | 26,383                                   | 16,386                  | 42,769      |
| Depreciation and amortization               | 17,342                                   | 16,965    | 34,307      | 14,977                                   | 17,000                  | 31,977      |
| Operating income                            | \$17,802                                 | \$23,706  | 41,508      | \$28,728                                 | \$22,089                | 50,817      |
| Loss on extinguishment of debt              |  |           | (15,632 )   |  |                         | —           |
| Earnings of unconsolidated joint venture    |  |           | 125         |  |                         | 94          |
| Interest expense, net                       |  |           | (33,017 )   |  |                         | (33,870 )   |
| Income (loss) before income taxes           |  |           | \$(7,016 )  |  |                         | \$17,041    |
|   | Nine Months Ended September<br>30, 2017  |           |             | Nine Months Ended September 30,<br>2016  |                         |             |
|   | Polymer                                  | Chemical  | Total       | Polymer                                  | Chemical <sup>(1)</sup> | Total       |
|   | (In thousands)                           |           |             |  |                         |             |
| Revenue                                     | \$920,225                                | \$574,167 | \$1,494,392 | \$786,132                                | \$542,583               | \$1,328,715 |
| Cost of goods sold                          | 679,133                                  | 395,918   | 1,075,051   | 576,358                                  | 391,386                 | 967,744     |
| Gross profit                                | 241,092                                  | 178,249   | 419,341     | 209,774                                  | 151,197                 | 360,971     |
| Operating expenses:                         |  |           |             |  |                         |             |
| Research and development                    | 21,690                                   | 8,739     | 30,429      | 22,008                                   | 8,375                   | 30,383      |
| Selling, general, and administrative        | 73,391                                   | 51,045    | 124,436     | 82,631                                   | 53,214                  | 135,845     |
| Depreciation and amortization               | 50,439                                   | 51,601    | 102,040     | 45,199                                   | 48,714                  | 93,913      |
| Operating income                            | \$95,572                                 | \$66,864  | 162,436     | \$59,936                                 | \$40,894                | 100,830     |
| Disposition and exit of business activities |  |           | —           |  |                         | 40,001      |
| Loss on extinguishment of debt              |  |           | (35,370 )   |  |                         | (13,423 )   |
| Earnings of unconsolidated joint venture    |  |           | 370         |  |                         | 274         |
| Interest expense, net                       |  |           | (101,766 )  |  |                         | (101,450 )  |
| Income before income taxes                  |  |           | \$25,670    |  |                         | \$26,232    |

(1) Our Chemical segment operating results were impacted by \$24.7 million of amortization of step-up to fair market value of their inventories.

The following table presents long-lived assets including goodwill and total assets.

|  | September 30, 2017 |             |             | December 31, 2016 |             |             |
|--|--------------------|-------------|-------------|-------------------|-------------|-------------|
|  | Polymer            | Chemical    | Total       | Polymer           | Chemical    | Total       |
|  | (In thousands)     |             |             |                   |             |             |
| Property, plant, and equipment, net        | \$559,170          | \$383,664   | \$942,834   | \$548,994         | \$357,728   | \$906,722   |
| Investment in unconsolidated joint venture | \$12,098           | \$—         | \$12,098    | \$11,195          | \$—         | \$11,195    |
| Goodwill                                   | \$—                | \$773,635   | \$773,635   | \$—               | \$770,012   | \$770,012   |
| Total assets                               | \$1,168,577        | \$1,824,029 | \$2,992,606 | \$1,127,273       | \$1,779,372 | \$2,906,645 |

For geographic reporting, revenue is attributed to the geographic location in which the customers' facilities are located. Long-lived assets consist primarily of property, plant, and equipment, which are attributed to the geographic location in which they are located and are presented at historical cost.





Following is a summary of revenue by geographic region:

|                     | Three Months<br>Ended September<br>30, |           | Nine Months Ended<br>September 30, |             |
|---------------------|--|-----------|------------------------------------|-------------|
|                     | 2017                                   | 2016      | 2017                               | 2016        |
|                     | (In thousands)                         |           |                                    |             |
| Revenue:            |  |           |                                    |             |
| United States       | \$184,374                              | \$177,170 | \$536,122                          | \$508,522   |
| Germany             | 53,535                                 | 43,782    | 155,640                            | 132,068     |
| All other countries | 273,038                                | 233,191   | 802,630                            | 688,125     |
|                     | \$510,947                              | \$454,143 | \$1,494,392                        | \$1,328,715 |

Following is a summary of long-lived assets by geographic region:

|                             | September 30,  |             | December 31, |      |
|-----------------------------|----------------|-------------|--------------|------|
|                             | 2017           | 2016        | 2017         | 2016 |
|                             | (In thousands) |             |              |      |
| Long-lived assets, at cost: |                |             |              |      |
| United States               | \$834,203      | \$789,067   |              |      |
| Taiwan                      | 178,452        | 167,907     |              |      |
| France                      | 131,346        | 117,965     |              |      |
| Brazil                      | 84,373         | 73,017      |              |      |
| Germany                     | 70,946         | 60,568      |              |      |
| All other countries         | 149,174        | 109,616     |              |      |
|                             | \$1,448,494    | \$1,318,140 |              |      |

Our capital expenditures for the Polymer segment, excluding capital expenditures by the KFPC joint venture, were \$37.4 million and \$35.4 million during the nine months ended September 30, 2017 and 2016, respectively, and capital expenditures for our Chemical segment were \$34.2 million and \$27.5 million during the nine months ended September 30, 2017 and 2016, respectively.

### 13. Related Party Transactions

We own a 50% equity investment in an SBC manufacturing joint venture in Kashima, Japan. Our “Due to related party” liability on the Condensed Consolidated Balance Sheets is related to this joint venture and purchases from the joint venture amounted to \$8.4 million and \$8.3 million for the three months ended September 30, 2017 and 2016, respectively, and \$28.9 million and \$22.2 million for the nine months ended September 30, 2017 and 2016, respectively.

We own a 50% variable interest in KFPC, an HSBC manufacturing joint venture in Mailiao, Taiwan. The KFPC joint venture is fully consolidated in our financial statements, and our joint venture partner, Formosa Petrochemical Corporation (“FPCC”), is a related party affiliate. Under the terms of the joint venture agreement, FPCC is to provide certain site services and raw materials to KFPC. Our total purchases during the three and nine months ended September 30, 2017 were \$4.8 million and \$8.9 million, respectively, and our outstanding payables was \$2.1 million as of September 30, 2017. See Note 14 Variable Interest Entity, for further discussion related to the KFPC joint venture.

In 2015, a former board member was appointed the Chief Executive Officer of Jacobs Engineering Group, Inc. (“Jacobs”) which has historically supplied site maintenance and engineering services for our Belpre, Ohio, facility. This board member resigned from our board in May 2017. Our total purchases from Jacobs amounted to \$2.5 million and \$3.4 million during the three months ended September 30, 2017 and 2016, respectively, and were \$8.6 million and \$8.5 million during the the nine months ended September 30, 2017 and 2016, respectively, and our outstanding payable was \$0.2 million as of September 30, 2017.



#### 14. Variable Interest Entity

We hold a variable interest in a joint venture with FPCC to build, own and operate a 30 kiloton HSBC plant at FPCC's petrochemical site in Mailiao, Taiwan. Kraton and FPCC are each 50% owners of the joint venture company, KFPC. Under the provisions of an offtake agreement with KFPC, we have exclusive rights to purchase all production from KFPC. Additionally, the agreement requires us to purchase a minimum of eighty percent of the plant production capacity each year at a defined fixed margin. This offtake agreement represents a variable interest that provides us the power to direct the most significant activities of KFPC and exposes us to the economic variability of the joint venture. As such, we have determined that we are the primary beneficiary of this variable interest entity. As a result, we have consolidated KFPC in our financial statements and reflected FPCC's 50% ownership as a noncontrolling interest. The following table summarizes the carrying amounts of assets and liabilities as of September 30, 2017 and December 31, 2016 for KFPC before intercompany eliminations. See Note 6 Long-Term Debt, for further discussion related to the KFPC Loan Agreement executed on July 17, 2014.

|                                     | September<br>30, 2017 | December<br>31, 2016 |
|-------------------------------------|-----------------------|----------------------|
|                                     | (In thousands)        |                      |
| Cash and cash equivalents           | \$9,811               | \$14,150             |
| Other current assets                | 21,899                | 13,385               |
| Property, plant, and equipment, net | 171,796               | 167,579              |
| Intangible assets                   | 9,529                 | 9,403                |
| Other long-term assets              | 10,954                | 2,495                |
| Total assets                        | \$223,989             | \$207,012            |
| Current portion of long-term debt   | \$32,545              | \$11,585             |
| Current liabilities                 | 19,597                | 26,743               |
| Long-term debt                      | 113,691               | 104,012              |
| Total liabilities                   | \$165,833             | \$142,340            |

#### 15. Supplemental Guarantor Information

Prior to the consummation of the Arizona Chemical Acquisition, certain of our wholly-owned domestic subsidiaries became co-registrants on our shelf registration statement on Form S-3 that was filed in August 2015 (the "Form S-3") pursuant to which such subsidiaries may in the future be issuers or guarantors of registered debt securities. As a result, we are required by the rules of the SEC to provide certain separate financial information with respect to the subsidiary issuers and guarantors that are co-registrants on the Form S-3 (which subsidiaries do not include any entities that became our subsidiary as a result of the subsequent consummation of the Arizona Chemical Acquisition). As of December 31, 2016, neither we nor any of our subsidiaries had any registered debt securities outstanding. Kraton Polymers LLC and its wholly-owned financing subsidiary, Kraton Polymers Capital Corporation, issued the 10.5% Senior Notes in January 2016 and the 7.0% Senior Notes in March 2017, each in private offerings, and each of which is fully and unconditionally guaranteed on a joint and several basis by Kraton Corporation, our subsidiaries that are co-registrants on the Form S-3 and certain entities that became our wholly-owned domestic subsidiaries in connection with the Arizona Chemical Acquisition. Kraton Polymers Capital Corporation has minimal assets and income. Because we have no registered debt outstanding at this time, we are presenting the following condensed consolidating financial information for the subsidiary issuers and guarantors of each of the 10.5% Senior Notes and 7.0% Senior Notes, which are prepared in accordance with the requirements of Rule 3-10 under Regulation S-X, to allow investors to determine the nature of the assets held by, and the operations and cash flows of, the various consolidating groups. If in the future we are no longer required by the rules of the SEC to provide separate financial information with respect to any of our subsidiaries, we will not necessarily continue presenting the below information.

KRATON CORPORATION  
CONDENSED CONSOLIDATING BALANCE SHEET

September 30, 2017

(Unaudited)

(In thousands, except par value)

|   | Kraton<br>Corporation | Kraton<br>Polymers<br>LLC | Guarantor<br>Subsidiaries | Non-Guarantor<br>Subsidiaries | Eliminations   | Consolidated |
|---|-----------------------|---------------------------|---------------------------|-------------------------------|----------------|--------------|
| <b>ASSETS</b>   |                       |                           |                           |                               |                |              |
| Current assets:   |                       |                           |                           |                               |                |              |
| Cash and cash equivalents                                     | \$ —                  | \$ 1,903                  | \$ 4,514                  | \$ 82,701                     | \$ —           | \$ 89,118    |
| Receivables, net of allowances                                | —                     | 1,084                     | 106,007                   | 146,346                       | —              | 253,437      |
| Inventories of products                                       | —                     | 89                        | 188,728                   | 174,014                       | —              | 362,831      |
| Inventories of materials and supplies                         | —                     | —                         | 13,890                    | 10,942                        | —              | 24,832       |
| Prepaid expenses  | —                     | 4,993                     | 20,556                    | 10,799                        | —              | 36,348       |
| Other current assets  | —                     | 1,281                     | 5,879                     | 38,833                        | —              | 45,993       |
| Total current assets  | —                     | 9,350                     | 339,574                   | 463,635                       | —              | 812,559      |
| Property, plant, and equipment, less accumulated depreciation | —                     | 20,955                    | 461,777                   | 460,102                       | —              | 942,834      |
| Goodwill  | —                     | —                         | 740,390                   | 33,245                        | —              | 773,635      |
| Intangible assets, less accumulated amortization              | —                     | 28,909                    | 327,531                   | 60,307                        | —              | 416,747      |
| Investment in consolidated subsidiaries                       | 652,395               | 894,752                   | —                         | —                             | (1,547,147 )   | —            |
| Investment in unconsolidated joint venture                    | —                     | 813                       | —                         | 11,285                        | —              | 12,098       |
| Debt issuance costs   | —                     | —                         | 2,633                     | —                             | —              | 2,633        |
| Deferred income taxes   | —                     | 213                       | —                         | 8,553                         | —              | 8,766        |
| Other long-term assets  | —                     | 910,871                   | 238,716                   | 839,392                       | (1,965,645 )   | 23,334       |
| Total assets  | \$ 652,395            | \$ 1,865,863              | \$ 2,110,621              | \$ 1,876,519                  | \$ (3,512,792) | \$ 2,992,606 |
| <b>LIABILITIES AND STOCKHOLDERS' AND MEMBER'S EQUITY</b>      |                       |                           |                           |                               |                |              |
| Current liabilities:  |                       |                           |                           |                               |                |              |
| Current portion of long-term debt                             | \$ —                  | \$ —                      | \$ 1,009                  | \$ 32,544                     | \$ —           | \$ 33,553    |
| Accounts payable-trade  | —                     | 1,823                     | 72,878                    | 81,725                        | —              | 156,426      |
| Other payables and accruals                                   | —                     | 43,832                    | 43,285                    | 64,739                        | —              | 151,856      |
| Due to related party  | —                     | —                         | —                         | 16,045                        | —              | 16,045       |
| Total current liabilities                                     | —                     | 45,655                    | 117,172                   | 195,053                       | —              | 357,880      |
| Long-term debt, net of current portion                        | —                     | 1,274,842                 | 1,330                     | 390,902                       | —              | 1,667,074    |
| Deferred income taxes   | —                     | (106,969 )                | 277,893                   | 44,221                        | —              | 215,145      |
| Other long-term liabilities                                   | —                     | 258                       | 1,261,509                 | 872,017                       | (1,965,645 )   | 168,139      |
| Total liabilities   | —                     | 1,213,786                 | 1,657,904                 | 1,502,193                     | (1,965,645 )   | 2,408,238    |
| Commitments and contingencies (note 10)                       |                       |                           |                           |                               |                |              |
| Stockholders' and member's equity:                            |                       |                           |                           |                               |                |              |
| Preferred stock, \$0.01 par value; 100,000 shares authorized; | —                     | —                         | —                         | —                             | —              | —            |

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none issued

|  |            |              |              |              |               |              |
|--|------------|--------------|--------------|--------------|---------------|--------------|
| Common stock, \$0.01 par value;<br>500,000 shares authorized | 313        | —            | —            | —            | —             | 313          |
| Additional paid in capital                                   | 369,702    | —            | —            | —            | —             | 369,702      |
| Member's equity  | —          | 652,395      | 519,466      | 375,286      | (1,547,147 )  | —            |
| Retained earnings  | 282,380    | —            | —            | —            | —             | 282,380      |
| Accumulated other comprehensive<br>loss                      | —          | (318 )       | (66,749 )    | (30,038 )    | —             | (97,105 )    |
| Kraton Corporation stockholders'<br>and member's equity      | 652,395    | 652,077      | 452,717      | 345,248      | (1,547,147 )  | 555,290      |
| Noncontrolling interest                                      | —          | —            | —            | 29,078       | —             | 29,078       |
| Total stockholders' and member's<br>equity                   | 652,395    | 652,077      | 452,717      | 374,326      | (1,547,147 )  | 584,368      |
| Total liabilities and stockholders'<br>and member's equity   | \$ 652,395 | \$ 1,865,863 | \$ 2,110,621 | \$ 1,876,519 | \$(3,512,792) | \$ 2,992,606 |

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KRATON CORPORATION  
CONDENSED CONSOLIDATING BALANCE SHEET

December 31, 2016

(In thousands, except par value)

|  | Kraton<br>Corporation | Kraton<br>Polymers<br>LLC | Guarantor<br>Subsidiaries | Non-Guarantor<br>Subsidiaries | Eliminations  | Consolidated |
|--|-----------------------|---------------------------|---------------------------|-------------------------------|---------------|--------------|
| <b>ASSETS</b>  |                       |                           |                           |                               |               |              |
| Current assets:  |                       |                           |                           |                               |               |              |
| Cash and cash equivalents  | \$ —                  | \$214                     | \$6,280                   | \$ 115,255                    | \$—           | \$ 121,749   |
| Receivables, net of allowances   | —                     | 468                       | 95,398                    | 104,994                       | —             | 200,860      |
| Inventories of products  | —                     | (1,634 )                  | 176,301                   | 153,329                       | —             | 327,996      |
| Inventories of materials and supplies                                    | —                     | —                         | 13,521                    | 8,871                         | —             | 22,392       |
| Prepaid expenses   | —                     | 6,077                     | 20,635                    | 9,139                         | —             | 35,851       |
| Other current assets   | —                     | 253                       | 8,209                     | 29,196                        | —             | 37,658       |
| Total current assets   | —                     | 5,378                     | 320,344                   | 420,784                       | —             | 746,506      |
| Property, plant, and equipment, less accumulated depreciation            | —                     | 27,123                    | 457,031                   | 422,568                       | —             | 906,722      |
| Goodwill   | —                     | —                         | 740,394                   | 29,618                        | —             | 770,012      |
| Intangible assets, less accumulated amortization                         | —                     | 32,493                    | 351,155                   | 55,550                        | —             | 439,198      |
| Investment in consolidated subsidiaries                                  | 616,431               | 2,952,279                 | —                         | —                             | (3,568,710 )  | —            |
| Investment in unconsolidated joint venture                               | —                     | 813                       | —                         | 10,382                        | —             | 11,195       |
| Debt issuance costs  | —                     | —                         | 3,511                     | —                             | —             | 3,511        |
| Deferred income taxes  | —                     | 213                       | —                         | 6,694                         | —             | 6,907        |
| Other long-term assets   | —                     | 77,963                    | 1,876,402                 | 1,006,230                     | (2,938,001 )  | 22,594       |
| Total assets   | \$ 616,431            | \$3,096,262               | \$3,748,837               | \$ 1,951,826                  | \$(6,506,711) | \$2,906,645  |
| <b>LIABILITIES AND STOCKHOLDERS' AND MEMBER'S EQUITY</b>                 |                       |                           |                           |                               |               |              |
| Current liabilities:   |                       |                           |                           |                               |               |              |
| Current portion of long-term debt  | \$ —                  | \$29,250                  | \$990                     | \$ 11,585                     | \$—           | \$41,825     |
| Accounts payable-trade   | —                     | 5,318                     | 73,501                    | 71,262                        | —             | 150,081      |
| Other payables and accruals  | —                     | 22,266                    | 51,488                    | 56,644                        | —             | 130,398      |
| Due to related party   | —                     | —                         | —                         | 14,669                        | —             | 14,669       |
| Total current liabilities  | —                     | 56,834                    | 125,979                   | 154,160                       | —             | 336,973      |
| Long-term debt, net of current portion                                   | —                     | 1,591,637                 | 2,051                     | 104,012                       | —             | 1,697,700    |
| Deferred income taxes  | —                     | (104,841 )                | 277,756                   | 38,481                        | —             | 211,396      |
| Other long-term liabilities  | —                     | 937,569                   | 1,142,952                 | 1,027,819                     | (2,938,001 )  | 170,339      |
| Total liabilities  | —                     | 2,481,199                 | 1,548,738                 | 1,324,472                     | (2,938,001 )  | 2,416,408    |
| Commitments and contingencies (note 10)                                  |                       |                           |                           |                               |               |              |
| Stockholders' and member's equity:                                       |                       |                           |                           |                               |               |              |
| Preferred stock, \$.01 par value; 100,000 shares authorized; none issued | —                     | —                         | —                         | —                             | —             | —            |
|  | 310                   | —                         | —                         | —                             | —             | 310          |

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|   |            |              |              |              |               |              |
|---|------------|--------------|--------------|--------------|---------------|--------------|
| Common stock, \$.01 par value;<br>500,000 shares authorized |            |              |              |              |               |              |
| Additional paid in capital                                  | 361,682    | —            | —            | —            | —             | 361,682      |
| Member's equity   | —          | 616,431      | 2,266,840    | 685,439      | (3,568,710 )  | —            |
| Retained earnings   | 254,439    | —            | —            | —            | —             | 254,439      |
| Accumulated other comprehensive<br>loss                     | —          | (1,368 )     | (66,741 )    | (90,421 )    | —             | (158,530 )   |
| Kraton Corporation stockholders'<br>and member's equity     | 616,431    | 615,063      | 2,200,099    | 595,018      | (3,568,710 )  | 457,901      |
| Noncontrolling interest                                     | —          | —            | —            | 32,336       | —             | 32,336       |
| Total stockholders' and member's<br>equity                  | 616,431    | 615,063      | 2,200,099    | 627,354      | (3,568,710 )  | 490,237      |
| Total liabilities and stockholders'<br>and member's equity  | \$ 616,431 | \$ 3,096,262 | \$ 3,748,837 | \$ 1,951,826 | \$(6,506,711) | \$ 2,906,645 |



KRATON CORPORATION  
CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS  
Three Months Ended September 30, 2017  
(Unaudited)  
(In thousands)

|  | Kraton Corporation | Kraton Polymers LLC | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Eliminations  | Consolidated |
|--|--------------------|---------------------|------------------------|----------------------------|---------------|--------------|
| Revenue  | \$ —               | \$—                 | \$ 277,964             | \$ 381,147                 | \$ (148,164 ) | \$ 510,947   |
| Cost of goods sold                               | —                  | 4,257               | 219,541                | 306,594                    | (148,164 )    | 382,228      |
| Gross profit (loss)                              | —                  | (4,257 )            | 58,423                 | 74,553                     | —             | 128,719      |
| Operating expenses:                              |                    |                     |                        |                            |               |              |
| Research and development                         | —                  | 4,020               | 2,503                  | 3,802                      | —             | 10,325       |
| Selling, general, and administrative             | —                  | 18,636              | 11,838                 | 12,105                     | —             | 42,579       |
| Depreciation and amortization                    | —                  | 5,580               | 18,209                 | 10,518                     | —             | 34,307       |
| Other (income) expense                           | —                  | (26,894 )           | (18,355 )              | 45,249                     | —             | —            |
| Operating income (loss)                          | —                  | (5,599 )            | 44,228                 | 2,879                      | —             | 41,508       |
| Loss on extinguishment of debt                   | —                  | (15,632 )           | —                      | —                          | —             | (15,632 )    |
| Earnings (loss) in consolidated subsidiaries     | (4,851 )           | 16,926              | —                      | —                          | (12,075 )     | —            |
| Earnings of unconsolidated joint venture         | —                  | —                   | —                      | 125                        | —             | 125          |
| Interest expense, net                            | —                  | (2,328 )            | (28,757 )              | (1,932 )                   | —             | (33,017 )    |
| Income (loss) before income taxes                | (4,851 )           | (6,633 )            | 15,471                 | 1,072                      | (12,075 )     | (7,016 )     |
| Income tax benefit (expense)                     | —                  | 1,782               | 1,660                  | (1,277 )                   | —             | 2,165        |
| Consolidated net income (loss)                   | (4,851 )           | (4,851 )            | 17,131                 | (205 )                     | (12,075 )     | (4,851 )     |
| Net loss attributable to noncontrolling interest | —                  | —                   | —                      | 818                        | —             | 818          |
| Net income (loss) attributable to Kraton         | \$ (4,851 )        | \$ (4,851 )         | \$ 17,131              | \$ 613                     | \$ (12,075 )  | \$ (4,033 )  |

KRATON CORPORATION  
CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS

Three Months Ended September 30, 2016

(Unaudited)

(In thousands)

|   | Kraton<br>Corporation | Kraton<br>Polymers<br>LLC | Guarantor<br>Subsidiaries | Non-Guarantor<br>Subsidiaries | Eliminations | Consolidated |
|---|-----------------------|---------------------------|---------------------------|-------------------------------|--------------|--------------|
| Revenue   | \$ —                  | \$—                       | \$ 227,916                | \$ 268,179                    | \$ (41,952 ) | \$ 454,143   |
| Cost of goods sold                                  | —                     | (2,090 )                  | 150,426                   | 212,503                       | (41,952 )    | 318,887      |
| Gross profit  | —                     | 2,090                     | 77,490                    | 55,676                        | —            | 135,256      |
| Operating expenses:                                 |                       |                           |                           |                               |              |              |
| Research and development                            | —                     | 3,661                     | 2,432                     | 3,600                         | —            | 9,693        |
| Selling, general, and administrative                | —                     | 36,277                    | (3,220 )                  | 9,712                         | —            | 42,769       |
| Depreciation and amortization                       | —                     | 5,610                     | 19,818                    | 6,549                         | —            | 31,977       |
| Other (income) expense                              | —                     | (70,969 )                 | 29,124                    | 41,845                        | —            | —            |
| Operating income (loss)                             | —                     | 27,511                    | 29,336                    | (6,030 )                      | —            | 50,817       |
| Earnings in consolidated subsidiaries               | 14,843                | 21,259                    | —                         | —                             | (36,102 )    | —            |
| Earnings of unconsolidated joint<br>venture         | —                     | —                         | —                         | 94                            | —            | 94           |
| Interest income (expense), net                      | —                     | (34,163 )                 | (60 )                     | 353                           | —            | (33,870 )    |
| Income (loss) before income taxes                   | 14,843                | 14,607                    | 29,276                    | (5,583 )                      | (36,102 )    | 17,041       |
| Income tax benefit (expense)                        | —                     | 236                       | 288                       | (2,722 )                      | —            | (2,198 )     |
| Consolidated net income (loss)                      | 14,843                | 14,843                    | 29,564                    | (8,305 )                      | (36,102 )    | 14,843       |
| Net loss attributable to noncontrolling<br>interest | —                     | —                         | —                         | 717                           | —            | 717          |
| Net income (loss) attributable to Kraton            | \$ 14,843             | \$ 14,843                 | \$ 29,564                 | \$ (7,588 )                   | \$ (36,102 ) | \$ 15,560    |

KRATON CORPORATION  
 CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS  
 Nine Months Ended September 30, 2017  
 (Unaudited)  
 (In thousands)

|  | Kraton<br>Corporation | Kraton<br>Polymers<br>LLC | Guarantor<br>Subsidiaries | Non-Guarantor<br>Subsidiaries | Eliminations | Consolidated |
|--|-----------------------|---------------------------|---------------------------|-------------------------------|--------------|--------------|
| Revenue  | \$ —                  | \$ —                      | \$ 826,753                | \$ 1,094,397                  | \$(426,758 ) | \$ 1,494,392 |
| Cost of goods sold                               | —                     | 173                       | 610,728                   | 890,908                       | (426,758 )   | 1,075,051    |
| Gross profit (loss)                              | —                     | (173 )                    | 216,025                   | 203,489                       | —            | 419,341      |
| Operating expenses:                              |                       |                           |                           |                               |              |              |
| Research and development                         | —                     | 11,588                    | 7,650                     | 11,191                        | —            | 30,429       |
| Selling, general, and administrative             | —                     | 50,893                    | 35,770                    | 37,773                        | —            | 124,436      |
| Depreciation and amortization                    | —                     | 16,721                    | 55,199                    | 30,120                        | —            | 102,040      |
| Other (income) expense                           | —                     | (73,860 )                 | (66 )                     | 73,926                        | —            | —            |
| Operating income (loss)                          | —                     | (5,515 )                  | 117,472                   | 50,479                        | —            | 162,436      |
| Loss on extinguishment of debt                   | —                     | (35,370 )                 | —                         | —                             | —            | (35,370 )    |
| Earnings in consolidated subsidiaries            | 22,763                | 77,296                    | —                         | —                             | (100,059 )   | —            |
| Earnings of unconsolidated joint venture         | —                     | —                         | —                         | 370                           | —            | 370          |
| Interest expense, net                            | —                     | (16,703 )                 | (83,055 )                 | (2,008 )                      | —            | (101,766 )   |
| Income before income taxes                       | 22,763                | 19,708                    | 34,417                    | 48,841                        | (100,059 )   | 25,670       |
| Income tax benefit (expense)                     | —                     | 3,055                     | 698                       | (6,660 )                      | —            | (2,907 )     |
| Consolidated net income                          | 22,763                | 22,763                    | 35,115                    | 42,181                        | (100,059 )   | 22,763       |
| Net loss attributable to noncontrolling interest | —                     | —                         | —                         | 5,178                         | —            | 5,178        |
| Net income attributable to Kraton                | \$ 22,763             | \$ 22,763                 | \$ 35,115                 | \$ 47,359                     | \$(100,059 ) | \$ 27,941    |

KRATON CORPORATION  
 CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS  
 Nine Months Ended September 30, 2016  
 (Unaudited)  
 (In thousands)

|   | Kraton<br>Corporation | Kraton<br>Polymers<br>LLC | Guarantor<br>Subsidiaries | Non-Guarantor<br>Subsidiaries | Eliminations | Consolidated |
|---|-----------------------|---------------------------|---------------------------|-------------------------------|--------------|--------------|
| Revenue   | \$ —                  | \$ —                      | \$ 658,995                | \$ 788,826                    | \$(119,106 ) | \$ 1,328,715 |
| Cost of goods sold                                  | —                     | (1,519 )                  | 462,311                   | 626,058                       | (119,106 )   | 967,744      |
| Gross profit  | —                     | 1,519                     | 196,684                   | 162,768                       | —            | 360,971      |
| Operating expenses:                                 |                       |                           |                           |                               |              |              |
| Research and development                            | —                     | 11,259                    | 7,864                     | 11,260                        | —            | 30,383       |
| Selling, general, and administrative                | —                     | 77,720                    | 23,550                    | 34,575                        | —            | 135,845      |
| Depreciation and amortization                       | —                     | 16,811                    | 58,691                    | 18,411                        | —            | 93,913       |
| Other (income) expense                              | —                     | (119,947 )                | 53,682                    | 66,265                        | —            | —            |
| Operating income                                    | —                     | 15,676                    | 52,897                    | 32,257                        | —            | 100,830      |
| Disposition and exit of business<br>activities      | —                     | —                         | 36,821                    | 3,180                         | —            | 40,001       |
| Loss on extinguishment of debt                      | —                     | (13,423 )                 | —                         | —                             | —            | (13,423 )    |
| Earnings in consolidated subsidiaries               | 109,256               | 121,262                   | —                         | —                             | (230,518 )   | —            |
| Earnings of unconsolidated joint<br>venture         | —                     | —                         | —                         | 274                           | —            | 274          |
| Interest income (expense), net                      | —                     | (101,521 )                | (952 )                    | 1,023                         | —            | (101,450 )   |
| Income before income taxes                          | 109,256               | 21,994                    | 88,766                    | 36,734                        | (230,518 )   | 26,232       |
| Income tax benefit (expense)                        | —                     | 87,262                    | (2,071 )                  | (2,167 )                      | —            | 83,024       |
| Consolidated net income                             | 109,256               | 109,256                   | 86,695                    | 34,567                        | (230,518 )   | 109,256      |
| Net loss attributable to noncontrolling<br>interest | —                     | —                         | —                         | 1,792                         | —            | 1,792        |
| Net income attributable to Kraton                   | \$ 109,256            | \$ 109,256                | \$ 86,695                 | \$ 36,359                     | \$(230,518 ) | \$ 111,048   |

## KRATON CORPORATION

## CONDENSED CONSOLIDATING STATEMENT OF COMPREHENSIVE INCOME (LOSS)

Three Months Ended September 30, 2017

(Unaudited)

(In thousands)

|   | Kraton<br>Corporation | Kraton<br>Polymers<br>LLC | Guarantor<br>Subsidiaries | Non-Guarantor<br>Subsidiaries | Eliminations | Consolidated |
|---|-----------------------|---------------------------|---------------------------|-------------------------------|--------------|--------------|
| Net income (loss) attributable to Kraton                      | \$ (4,851 )           | \$ (4,851 )               | \$ 17,131                 | \$ 613                        | \$ (12,075 ) | \$ (4,033 )  |
| Other comprehensive income:                                   |                       |                           |                           |                               |              |              |
| Foreign currency translation adjustments,<br>net of tax       | —                     | —                         | —                         | 18,910                        | —            | 18,910       |
| Unrealized loss on cash flow hedges, net of<br>tax            | —                     | (239 )                    | —                         | —                             | —            | (239 )       |
| Reclassification of loss on cash flow hedge                   | —                     | 920                       | —                         | —                             | —            | 920          |
| Other comprehensive income, net of tax                        | —                     | 681                       | —                         | 18,910                        | —            | 19,591       |
| Comprehensive income (loss) attributable<br>to Kraton         | (4,851 )              | (4,170 )                  | 17,131                    | 19,523                        | (12,075 )    | 15,558       |
| Comprehensive loss attributable to<br>noncontrolling interest | —                     | —                         | —                         | (787 )                        | —            | (787 )       |
| Consolidated comprehensive income (loss)                      | \$ (4,851 )           | \$ (4,170 )               | \$ 17,131                 | \$ 18,736                     | \$ (12,075 ) | \$ 14,771    |

## KRATON CORPORATION

## CONDENSED CONSOLIDATING STATEMENT OF COMPREHENSIVE INCOME (LOSS)

Three Months Ended September 30, 2016

(Unaudited)

(In thousands)

|   | Kraton<br>Corporation | Kraton<br>Polymers<br>LLC | Guarantor<br>Subsidiaries | Non-Guarantor<br>Subsidiaries | Eliminations | Consolidated |
|---|-----------------------|---------------------------|---------------------------|-------------------------------|--------------|--------------|
| Net income (loss) attributable to Kraton                      | \$ 14,843             | \$ 14,843                 | \$ 29,564                 | \$ (7,588 )                   | \$ (36,102 ) | \$ 15,560    |
| Other comprehensive income (loss):                            |                       |                           |                           |                               |              |              |
| Foreign currency translation adjustments,<br>net of tax       | —                     | —                         | —                         | 3,994                         | —            | 3,994        |
| Unrealized loss on cash flow hedges, net of<br>tax            | —                     | (21 )                     | —                         | (27 )                         | —            | (48 )        |
| Other comprehensive income (loss), net of<br>tax              | —                     | (21 )                     | —                         | 3,967                         | —            | 3,946        |
| Comprehensive income (loss) attributable<br>to Kraton         | 14,843                | 14,822                    | 29,564                    | (3,621 )                      | (36,102 )    | 19,506       |
| Comprehensive loss attributable to<br>noncontrolling interest | —                     | —                         | —                         | 339                           | —            | 339          |
| Consolidated comprehensive income (loss)                      | \$ 14,843             | \$ 14,822                 | \$ 29,564                 | \$ (3,282 )                   | \$ (36,102 ) | \$ 19,845    |

KRATON CORPORATION  
 CONDENSED CONSOLIDATING STATEMENT OF COMPREHENSIVE INCOME  
 Nine Months Ended September 30, 2017  
 (Unaudited)  
 (In thousands)

|   | Kraton<br>Corporation | Kraton<br>Polymers<br>LLC | Guarantor<br>Subsidiaries | Non-Guarantor<br>Subsidiaries | Eliminations | Consolidated |
|---|-----------------------|---------------------------|---------------------------|-------------------------------|--------------|--------------|
| Net income attributable to Kraton                             | \$ 22,763             | \$ 22,763                 | \$ 35,115                 | \$ 47,359                     | \$(100,059 ) | \$ 27,941    |
| Other comprehensive income:                                   |                       |                           |                           |                               |              |              |
| Foreign currency translation adjustments,<br>net of tax       | —                     | —                         | —                         | 60,691                        | —            | 60,691       |
| Unrealized loss on cash flow hedges, net<br>of tax            | —                     | (145 )                    | —                         | —                             | —            | (145 )       |
| Reclassification of loss on cash flow<br>hedge                | —                     | 879                       | —                         | —                             | —            | 879          |
| Other comprehensive income, net of tax                        | —                     | 734                       | —                         | 60,691                        | —            | 61,425       |
| Comprehensive income attributable to<br>Kraton                | 22,763                | 23,497                    | 35,115                    | 108,050                       | (100,059 )   | 89,366       |
| Comprehensive loss attributable to<br>noncontrolling interest | —                     | —                         | —                         | (3,258 )                      | —            | (3,258 )     |
| Consolidated comprehensive income                             | \$ 22,763             | \$ 23,497                 | \$ 35,115                 | \$ 104,792                    | \$(100,059 ) | \$ 86,108    |

## KRATON CORPORATION

## CONDENSED CONSOLIDATING STATEMENT OF COMPREHENSIVE INCOME (LOSS)

Nine Months Ended September 30, 2016

(Unaudited)

(In thousands)

|   | Kraton<br>Corporation | Kraton<br>Polymers<br>LLC | Guarantor<br>Subsidiaries | Non-Guarantor<br>Subsidiaries | Eliminations  | Consolidated |
|---|-----------------------|---------------------------|---------------------------|-------------------------------|---------------|--------------|
| Net income attributable to Kraton                             | \$ 109,256            | \$ 109,256                | \$ 86,695                 | \$ 36,359                     | \$ (230,518 ) | \$ 111,048   |
| Other comprehensive income (loss):                            |                       |                           |                           |                               |               |              |
| Foreign currency translation<br>adjustments, net of tax       | —                     | —                         | —                         | 27,311                        | —             | 27,311       |
| Unrealized loss on cash flow hedges, net<br>of tax            | —                     | (5,293 )                  | —                         | (61 )                         | —             | (5,354 )     |
| Other comprehensive income (loss), net<br>of tax              | —                     | (5,293 )                  | —                         | 27,250                        | —             | 21,957       |
| Comprehensive income attributable to<br>Kraton                | 109,256               | 103,963                   | 86,695                    | 63,609                        | (230,518 )    | 133,005      |
| Comprehensive loss attributable to<br>noncontrolling interest | —                     | —                         | —                         | (199 )                        | —             | (199 )       |
| Consolidated comprehensive income                             | \$ 109,256            | \$ 103,963                | \$ 86,695                 | \$ 63,410                     | \$ (230,518 ) | \$ 132,806   |



KRATON CORPORATION  
CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS  
Nine Months Ended September 30, 2017  
(Unaudited)  
(In thousands)

|  | Kraton Corporation | Kraton Polymers LLC | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Elimination | Consolidated |
|--|--------------------|---------------------|------------------------|----------------------------|-------------|--------------|
| Cash flows provided by operating activities            | \$ —               | \$ 3,202            | \$ 83,812              | \$ 48,435                  | \$ —        | \$ 135,449   |
| Cash flows provided by (used in) investing activities: |                    |                     |                        |                            |             |              |
| Proceeds from intercompany loans                       | —                  | 44,961              | —                      | —                          | (44,961)    | —            |
| Kraton purchase of property, plant and equipment       | —                  | (2,943 )            | (39,904 )              | (28,748 )                  | —           | (71,595 )    |
| KFPC purchase of property, plant and equipment         | —                  | —                   | —                      | (11,790 )                  | —           | (11,790 )    |
| Purchase of software and other intangibles             | —                  | (3,956 )            | (147 )                 | (856 )                     | —           | (4,959 )     |
| Net cash provided by (used in) investing activities    | —                  | 38,062              | (40,051 )              | (41,394 )                  | (44,961)    | (88,344 )    |
| Cash flows used in financing activities:               |                    |                     |                        |                            |             |              |
| Proceeds from debt                                     | —                  | 399,350             | 32,797                 | 307,020                    | —           | 739,167      |
| Repayments of debt                                     | —                  | (778,000)           | (32,797 )              | (26,215 )                  | —           | (837,012 )   |
| KFPC proceeds from debt                                | —                  | —                   | —                      | 39,898                     | —           | 39,898       |
| KFPC repayments of debt                                | —                  | —                   | —                      | (16,244 )                  | —           | (16,244 )    |
| Capital lease payments                                 | —                  | —                   | (703 )                 | —                          | —           | (703 )       |
| Purchase of treasury stock                             | (2,297)            | —                   | —                      | —                          | —           | (2,297 )     |
| Cash contributions from member                         | —                  | (2,297 )            | —                      | (351,324 )                 | 353,621     | —            |
| Cash distributions to member                           | (657 )             | 354,278             | —                      | —                          | (353,621)   | —            |
| Proceeds from the exercise of stock options            | 2,954              | —                   | —                      | —                          | —           | 2,954        |
| Settlement of interest rate swap                       | —                  | (879 )              | —                      | —                          | —           | (879 )       |
| Settlement of foreign currency hedges                  | —                  | (716 )              | —                      | —                          | —           | (716 )       |
| Debt issuance costs                                    | —                  | (11,311 )           | —                      | (2,618 )                   | —           | (13,929 )    |
| Payments on intercompany loans                         | —                  | —                   | (44,824 )              | (137 )                     | 44,961      | —            |
| Net cash used in financing activities                  | —                  | (39,575 )           | (45,527 )              | (49,620 )                  | 44,961      | (89,761 )    |
| Effect of exchange rate differences on cash            | —                  | —                   | —                      | 10,025                     | —           | 10,025       |
| Net increase (decrease) in cash and cash equivalents   | —                  | 1,689               | (1,766 )               | (32,554 )                  | —           | (32,631 )    |
| Cash and cash equivalents, beginning of period         | —                  | 214                 | 6,280                  | 115,255                    | —           | 121,749      |
| Cash and cash equivalents, end of period               | \$ —               | \$ 1,903            | \$ 4,514               | \$ 82,701                  | \$ —        | \$ 89,118    |

KRATON CORPORATION  
CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS  
Nine Months Ended September 30, 2016  
(Unaudited)  
(In thousands)

|  | Kraton Corporation | Kraton Polymers LLC | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Eliminations | Consolidated |
|--|--------------------|---------------------|------------------------|----------------------------|--------------|--------------|
| Cash flows provided by (used in) operating activities  | \$ —               | \$(53,043)          | \$ 142,718             | \$ 36,454                  | \$ —         | \$ 126,129   |
| Cash flows provided by (used in) investing activities: |                    |                     |                        |                            |              |              |
| Proceeds from intercompany loans                       | —                  | 167,868             | —                      | —                          | (167,868)    | —            |
| Kraton purchase of property, plant, and equipment      | —                  | (2,253)             | (38,082)               | (22,550)                   | —            | (62,885)     |
| KFPC purchase of property, plant, and equipment        | —                  | —                   | —                      | (16,995)                   | —            | (16,995)     |
| Purchase of software and other intangibles             | —                  | (3,280)             | (1,411)                | —                          | —            | (4,691)      |
| Acquisition, net of cash acquired                      | —                  | (1,367,088)         | 11,590                 | 43,393                     | —            | (1,312,105)  |
| Sale of assets   | —                  | —                   | 72,803                 | —                          | —            | 72,803       |
| Net cash provided by (used in) investing activities    | —                  | (1,204,753)         | 44,900                 | 3,848                      | (167,868)    | (1,323,873)  |
| Cash flows provided by (used in) financing activities: |                    |                     |                        |                            |              |              |
| Proceeds from debt                                     | —                  | 1,732,890           | 50,075                 | —                          | —            | 1,782,965    |
| Repayments of debt                                     | —                  | (430,058)           | (50,075)               | —                          | —            | (480,133)    |
| KFPC proceeds from debt                                | —                  | —                   | —                      | 24,368                     | —            | 24,368       |
| Capital lease payments                                 | —                  | —                   | (105)                  | —                          | —            | (105)        |
| Purchase of treasury stock                             | (967)              | —                   | —                      | —                          | —            | (967)        |
| Cash contributions from member                         | —                  | (967)               | —                      | —                          | 967          | —            |
| Cash distributions to member                           | (1,658)            | 2,625               | —                      | —                          | (967)        | —            |
| Proceeds from the exercise of stock options            | 2,625              | —                   | —                      | —                          | —            | 2,625        |
| Settlement of interest rate swap                       | —                  | —                   | (5,155)                | —                          | —            | (5,155)      |
| Debt issuance costs                                    | —                  | (53,929)            | (3,717)                | —                          | —            | (57,646)     |
| Payments on intercompany loans                         | —                  | —                   | (168,075)              | 207                        | 167,868      | —            |
| Net cash provided by (used in) financing activities    | —                  | 1,250,561           | (177,052)              | 24,575                     | 167,868      | 1,265,952    |
| Effect of exchange rate differences on cash            | —                  | —                   | —                      | 5,291                      | —            | 5,291        |
| Net increase (decrease) in cash and cash equivalents   | —                  | (7,235)             | 10,566                 | 70,168                     | —            | 73,499       |
| Cash and cash equivalents, beginning of period         | —                  | 7,256               | 11,595                 | 51,198                     | —            | 70,049       |
| Cash and cash equivalents, end of period               | \$ —               | \$ 21               | \$ 22,161              | \$ 121,366                 | \$ —         | \$ 143,548   |

16. Subsequent Events

We have evaluated events and transactions that occurred after the balance sheet date and determined that there were no significant events or transactions that would require recognition or disclosure in our condensed consolidated financial statements for the period ended September 30, 2017.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

INTRODUCTION

You should read the following discussion of our financial condition and results of operations together with our audited consolidated financial statements and related notes thereto included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2016. This discussion contains forward-looking statements and involves numerous risks, uncertainties, assumptions and other important factors that could cause the actual results, performance, or industry results, to differ materially from historical results, any future results, or performance, or industry results expressed or implied by such forward-looking statements. See "Cautionary Statement Regarding Forward-Looking Information."

OVERVIEW

We are a leading global specialty chemicals company that manufactures styrenic block copolymers ("SBCs"), other engineered polymers, and value-added specialty products primarily derived from pine wood pulping co-products.

Polymer Segment

SBCs are highly-engineered synthetic elastomers that we originally invented and commercialized. Our SBCs enhance the performance of numerous products by imparting greater flexibility, resilience, strength, durability, and processability. They are used in a wide range of applications, including adhesives, coatings, consumer and personal care products, sealants, lubricants, medical, packaging, automotive, paving, roofing and footwear products. We also sell isoprene rubber and isoprene rubber latex, which are non-SBC products primarily used in applications such as medical products, personal care, adhesives, tackifiers, paints, and coatings.

Our polymers are typically formulated or compounded with other products to achieve improved, customer-specific performance characteristics. We seek to maximize the value of our product portfolio by emphasizing complex or specialized polymers and innovations that yield higher margins than more commoditized products. We sometimes refer to these complex or specialized polymers or innovations as being more "differentiated."

Our products are found in many everyday applications, including personal care products, such as disposable diapers, and in the rubberized grips of toothbrushes, razor blades and power tools. Our products are also used to impart tack and shear properties in a wide variety of adhesive products and to impart characteristics such as flexibility and durability in sealants and corrosion resistance in coatings. Our paving and roofing applications provide durability, extending road and roof life.

We also produce Cariflex™ isoprene rubber and isoprene rubber latex. Our Cariflex products are based on synthetic polyisoprene polymer and do not contain natural rubber latex or other natural rubber products, making them an ideal substitute for natural rubber latex, particularly in applications with high purity requirements such as medical, healthcare, personal care, and food contact. We believe the versatility of Cariflex provides opportunities for new, differentiated applications.

Chemical Segment

We manufacture and sell high value products primarily derived from pine wood pulping co-products. We refine and further upgrade two primary feedstocks into value-added specialty chemicals, crude tall oil ("CTO") and crude sulfate turpentine ("CST"), both of which are co-products of the wood pulping process. We refine CTO through a distillation process into four primary constituent fractions: tall oil fatty acids ("TOFA"), tall oil rosin ("TOR"), distilled tall oil ("DTO"), and tall oil pitch. We further upgrade TOFA, TOR and DTO into derivatives including dimer acids, polyamide resins, rosin resins, dispersions, and disproportionated resins. We refine CST into terpene fractions, which can be further upgraded into terpene resins. The various fractions and derivatives resulting from our CTO and CST refining process provide for distinct functionalities and properties, determining their respective applications and end markets. We focus our resources on four target markets: adhesives, roads and construction, tires, and performance chemicals (which we formerly referred to as chemical intermediates). Within our target markets, these products are sold into a diverse range of submarkets, including packaging, tapes and labels, pavement marking, high performance tires, fuel additives, oilfield and mining, coatings, metalworking fluids and lubricants, inks, and flavor and fragrances, among others.

While this business is based predominantly on the refining and upgrading of CTO and CST, we have the capacity to use both hydrocarbon-based raw materials, such as alpha-methyl-styrene, rosins and gum rosins where appropriate and, accordingly, are able to offer tailored solutions for our customers.



### Status of Synergies, Operational Improvement, and Cost Reduction Initiatives

We previously announced synergies and operational improvement initiatives associated with the Arizona Chemical Acquisition and a cost reduction initiative targeted at lowering costs in our Polymer segment. Following is a summary of the status of these initiatives:

|                                      | Cumulative through<br>September 30,<br>2017 |  | December 31,<br>2016 |  |
|--------------------------------------|---|--|----------------------|--|
| General and administrative synergies | \$23,609                                    |  | \$ 17,663            |  |
| Operational improvements             | 41,044                                      |  | 19,223               |  |
| Cost reduction                       | 40,690                                      |  | 31,338               |  |
|                                      | \$105,343                                   |  | \$ 68,224            |  |

### Factors Affecting Our Results of Operations

**International Operations and Currency Fluctuations.** We operate a geographically diverse business, serving customers in numerous countries from fourteen manufacturing facilities on four continents. Our sales and production costs are mainly denominated in U.S. dollars, Euro, Japanese Yen, Swedish Krona, and Brazilian Real. From time to time, we use hedging strategies to reduce our exposure to currency fluctuations.

We generated our revenue from customers located in the following regions:

|                                 | Three Months<br>Ended September<br>30, |           | Nine Months Ended<br>September 30, |             |
|---------------------------------|--|-----------|------------------------------------|-------------|
|                                 | 2017                                   | 2016      | 2017                               | 2016        |
| Revenue by Geography:           | (In thousands)                         |           |                                    |             |
| Americas                        | \$215,893                              | \$204,819 | \$626,818                          | \$581,458   |
| Europe, Middle East, and Africa | 177,906                                | 146,571   | 542,876                            | 455,277     |
| Asia Pacific                    | 117,148                                | 102,753   | 324,698                            | 291,980     |
| Total revenue                   | \$510,947                              | \$454,143 | \$1,494,392                        | \$1,328,715 |

**Raw Materials.** We use butadiene, styrene, and isoprene (collectively referred to as “monomers”) as our primary raw materials in our Polymer segment and CTO and CST in our Chemical segment. The cost of these raw materials has generally correlated with changes in energy prices and is generally influenced by supply and demand factors, and for our isoprene monomers the prices of natural and synthetic rubber. Average purchase prices of our raw materials increased during both the three and nine months ended September 30, 2017 compared to the three and nine months ended September 30, 2016.

**Seasonality.** Seasonal changes and weather conditions typically affect our sales of products in our paving, pavement marking, roofing, and construction applications, which generally results in higher sales volumes in the second and third quarters of the calendar year compared to the first and fourth quarters of the calendar year. Sales for our other product applications tend to show relatively little seasonality.

RESULTS OF OPERATIONS  
 KRATON CORPORATION  
 CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

(In thousands, except per share data)

|  | Three Months Ended |           | Nine Months Ended |             |
|--|--------------------|-----------|-------------------|-------------|
|  | September 30,      |           | September 30,     |             |
|  | 2017               | 2016      | 2017              | 2016        |
| Revenue  | \$510,947          | \$454,143 | \$1,494,392       | \$1,328,715 |
| Cost of goods sold                               | 382,228            | 318,887   | 1,075,051         | 967,744     |
| Gross profit                                     | 128,719            | 135,256   | 419,341           | 360,971     |
| Operating expenses:                              |                    |           |                   |             |
| Research and development                         | 10,325             | 9,693     | 30,429            | 30,383      |
| Selling, general, and administrative             | 42,579             | 42,769    | 124,436           | 135,845     |
| Depreciation and amortization                    | 34,307             | 31,977    | 102,040           | 93,913      |
| Operating income                                 | 41,508             | 50,817    | 162,436           | 100,830     |
| Disposition and exit of business activities      | —                  | —         | —                 | 40,001      |
| Loss on extinguishment of debt                   | (15,632 )          | —         | (35,370 )         | (13,423 )   |
| Earnings of unconsolidated joint venture         | 125                | 94        | 370               | 274         |
| Interest expense, net                            | (33,017 )          | (33,870 ) | (101,766 )        | (101,450 )  |
| Income (loss) before income taxes                | (7,016 )           | 17,041    | 25,670            | 26,232      |
| Income tax benefit (expense)                     | 2,165              | (2,198 )  | (2,907 )          | 83,024      |
| Consolidated net income (loss)                   | (4,851 )           | 14,843    | 22,763            | 109,256     |
| Net loss attributable to noncontrolling interest | 818                | 717       | 5,178             | 1,792       |
| Net income (loss) attributable to Kraton         | \$(4,033 )         | \$15,560  | \$27,941          | \$111,048   |
| Earnings (loss) per common share:                |                    |           |                   |             |
| Basic  | \$(0.13 )          | \$0.50    | \$0.90            | \$3.60      |
| Diluted  | \$(0.13 )          | \$0.49    | \$0.88            | \$3.56      |
| Weighted average common shares outstanding:      |                    |           |                   |             |
| Basic  | 30,625             | 30,221    | 30,548            | 30,137      |
| Diluted  | 30,625             | 30,783    | 31,006            | 30,557      |

## Consolidated Results

Three Months Ended September 30, 2017 compared to Three Months Ended September 30, 2016

Revenue was \$510.9 million for the three months ended September 30, 2017 compared to \$454.1 million for the three months ended September 30, 2016, an increase of \$56.8 million or 12.5%. Revenue for the Polymer segment increased \$41.2 million and revenue for the Chemical segment increased \$15.6 million. For additional information regarding the changes in revenue, see our segment disclosures below.

Cost of goods sold was \$382.2 million for the three months ended September 30, 2017 compared to \$318.9 million for the three months ended September 30, 2016, an increase of \$63.3 million or 19.9%, primarily driven by higher average raw material costs, increased sales volumes, and a \$7.8 million negative impact from changes in foreign currency.

Selling, general, and administrative expenses were \$42.6 million for the three months ended September 30, 2017 compared to \$42.8 million for the three months ended September 30, 2016. The \$0.2 million decrease is primarily attributable to lower transaction, acquisition, and restructuring costs, partially offset by employee related costs.

Depreciation and amortization was \$34.3 million for the three months ended September 30, 2017 compared to \$32.0 million for the three months ended September 30, 2016. The increase of \$2.3 million was primarily attributable to the start up of our manufacturing joint venture in Mailiao, Taiwan.

In August 2017, we borrowed a new tranche of term loans denominated in Euros in an aggregate principal amount equal to €260.0 million (the "Euro Tranche"), or \$305.0 million (converted at the August 16, 2017 closing exchange rate). The proceeds from borrowings under the Euro Tranche were used, together with available cash, to pay down \$366.0 million of the outstanding borrowings under the U.S. dollar denominated term loan (the "USD Tranche"). The repayments were considered an extinguishment of indebtedness and accordingly we wrote off a pro-rata portion of previously capitalized deferred financing costs and original issue discount associated with the USD Tranche resulting in a loss on extinguishment of debt of \$15.6 million for the three months ended September 30, 2017.

Income tax provision was a benefit of \$2.2 million and an expense \$2.2 million for the three months ended September 30, 2017 and 2016, respectively. Our effective tax rate for the three months ended September 30, 2017 was 30.9% and 12.9% for the three months ended September 30, 2017 and 2016, respectively. Our effective tax rates differ from the U.S. corporate statutory tax rate of 35.0% primarily due to the mix of our pretax income or loss generated in foreign jurisdictions, permanent items, uncertain tax positions, and changes in our valuation allowances. During the three months ended September 30, 2017 and 2016, our pretax earnings in the Netherlands, Sweden, and Finland decreased our effective tax rate due to the local statutory rates of 25.0%, 22.0%, and 20.0%, respectively.

Net loss attributable to Kraton was \$4.0 million or \$0.13 per diluted share for the three months ended September 30, 2017, a decrease of \$19.6 million compared to net income of \$15.6 million or \$0.49 per diluted share for the three months ended September 30, 2016. Adjusted diluted earnings per share (non-GAAP) was \$1.51 for the three months ended September 30, 2017 compared to \$0.63 for the three months ended September 30, 2016. See a reconciliation of generally accepted accounting principles ("GAAP") diluted earnings per share to non-GAAP adjusted diluted earnings per share below.

Nine Months Ended September 30, 2017 compared to Nine Months Ended September 30, 2016

Our operating results for the nine months ended September 30, 2016 include the operating results for Arizona Chemical since the acquisition date of January 6, 2016.

Revenue was \$1,494.4 million for the nine months ended September 30, 2017 compared to \$1,328.7 million for the nine months ended September 30, 2016, an increase of \$165.7 million or 12.5%. Revenue for our Polymer segment increased \$134.1 million and our revenue for the Chemical segment increased \$31.6 million. For additional information regarding the changes in revenue, see our segment disclosures below.

Cost of goods sold was \$1,075.1 million for the nine months ended September 30, 2017 compared to \$967.7 million for the nine months ended September 30, 2016, an increase of \$107.3 million or 11.1%. The increase was primarily driven by higher average raw material costs and sales volumes, partially offset by the \$24.7 million of higher costs of goods sold in 2016 related to the fair value adjustment in purchase accounting for inventory.

Selling, general, and administrative expenses were \$124.4 million for the nine months ended September 30, 2017 compared to \$135.8 million for the nine months ended September 30, 2016. The \$11.4 million decrease is primarily



attributable to lower transaction, acquisition, and restructuring costs, partially offset by employee related costs. Depreciation and amortization was \$102.0 million for the nine months ended September 30, 2017 compared to \$93.9 million for the nine months ended September 30, 2016. The increase of \$8.1 million was primarily attributable to the start up of the manufacturing joint venture in Mailiao, Taiwan.

Disposition and exit of business activities was \$40.0 million for the nine months ended September 30, 2016, which resulted from the sale of certain compounding assets, partially offset by the exit from our NEXAR™ product line and the dissolution of our joint venture in Paulinia, Brazil.

In March 2017, we completed the issuance of \$400.0 million 7.0% Senior Notes and in August 2017, we closed on the €260.0 million “Euro Tranche. We used the net proceeds from both transactions, along with available cash, to repay approximately \$758.0 million of existing indebtedness under the USD Tranche. The repayment were considered an extinguishment of indebtedness and accordingly we wrote off a pro-rata portion of previously capitalized deferred financing costs and original issue discount associated with the USD Tranche resulting in the loss on extinguishment of \$35.4 million for nine months ended September 30, 2017.

Income tax provision was an expense of \$2.9 million and a benefit of \$83.0 million for the nine months ended September 30, 2017 and 2016, respectively. Our effective tax rate for the nine months ended September 30, 2017 was 11.3%. Given the level of our pre-tax book income for the nine months ended September 30, 2016 and the release of a significant portion of our valuation allowance, our effective tax rate for the nine months ended September 30, 2016 is not meaningful. Our effective tax rates differ from the U.S. corporate statutory tax rate of 35.0% primarily due to the mix of our pretax income or loss generated in foreign jurisdictions, permanent items, uncertain tax positions, and changes in our valuation allowances. During the nine months ended September 30, 2017 and 2016, our pretax earnings in the Netherlands, Sweden, and Finland decreased our effective tax rate due to the statutory rates of 25.0%, 22.0%, and 20.0%, respectively.

Net income attributable to Kraton was \$27.9 million, or \$0.88 per diluted share, for the nine months ended September 30, 2017, a decrease of \$83.1 million compared to net income of \$111.0 million, or \$3.56 per diluted share, for the nine months ended September 30, 2016. Adjusted diluted earnings per share (non-GAAP) was \$1.88 for the nine months ended September 30, 2017 compared to \$2.07 for the nine months ended September 30, 2016. See a reconciliation of GAAP diluted earnings (loss) per share to non-GAAP adjusted diluted earnings per share below.

## Polymer Segment

|  | Three Months Ended |           | Nine Months Ended |           |
|--|--------------------|-----------|-------------------|-----------|
|  | September 30,      |           | September 30,     |           |
|  | 2017               | 2016      | 2017              | 2016      |
| Revenue  | (In thousands)     |           |                   |           |
| Performance Products                             | \$175,968          | \$138,479 | \$508,820         | \$403,214 |
| Specialty Polymers                               | 94,313             | 89,107    | 285,712           | 256,197   |
| Cariflex   | 43,031             | 45,303    | 124,433           | 126,513   |
| Other  | 847                | 81        | 1,260             | 208       |
|  | \$314,159          | \$272,970 | \$920,225         | \$786,132 |
| Operating income                                 | \$17,802           | \$28,728  | \$95,572          | \$59,936  |
| Adjusted EBITDA (non-GAAP) <sup>(1)</sup>        | \$77,363           | \$49,576  | \$172,233         | \$141,023 |
| Adjusted EBITDA margin (non-GAAP) <sup>(2)</sup> | 24.6               | % 18.2    | % 18.7            | % 17.9    |

(1) See non-GAAP reconciliations included below for the reconciliation of each non-GAAP measure to its most directly comparable GAAP measure.

(2) Defined as Adjusted EBITDA as a percentage of revenue.

Three Months Ended September 30, 2017 compared to Three Months Ended September 30, 2016

Revenue for the Polymer segment was \$314.2 million for the three months ended September 30, 2017 compared to \$273.0 million for the three months ended September 30, 2016. Sales volumes of 91.9 kilotons for the three months ended September 30, 2017 increased 6.9% compared to the three months ended September 30, 2016. Performance Products volumes increased 11.1%, Specialty Polymers volumes decreased 3.8% (excluding the effect of the sale of the compounding business, sales volumes would have been relatively flat), and Cariflex volumes decreased 1.3%. The positive effect from changes in currency exchange rates between the periods was \$3.3 million.

With respect to revenue for the Polymer segment product groups:

- Cariflex™ revenue was \$43.0 million for the three months ended September 30, 2017, compared to \$45.3 million for the three months ended September 30, 2016.

Specialty Polymers revenue was \$94.3 million for the three months ended September 30, 2017 compared to \$89.1 million for the three months ended September 30, 2016. The increase was primarily driven by higher average selling prices resulting from higher raw material costs.

Performance Products revenue was \$176.0 million for the three months ended September 30, 2017 compared to \$138.5 million for the three months ended September 30, 2016. The increase was primarily driven by higher average selling prices driven by higher raw material costs and increased sales volumes.

For the three months ended September 30, 2017, the Polymer segment operating income was \$17.8 million compared to \$28.7 million for the three months ended September 30, 2016.

For the three months ended September 30, 2017, the Polymer segment generated Adjusted EBITDA (non-GAAP) of \$77.4 million compared to \$49.6 million for the three months ended September 30, 2016. The increase was due to higher volumes and improved unit margins, primarily driven by higher selling prices. See a reconciliation of GAAP operating income to non-GAAP Adjusted EBITDA below.

Nine Months Ended September 30, 2017 compared to Nine Months Ended September 30, 2016

Revenue for the Polymer segment was \$920.2 million for the nine months ended September 30, 2017 compared to \$786.1 million for the nine months ended September 30, 2016. Sales volumes of 258.1 kilotons for the nine months ended September 30, 2017 increased 2.9% compared to nine months ended September 30, 2016. Performance Products volumes increased 3.2%, Specialty Polymers volumes increased 2.5% (excluding the effect of the sale of the compounding business, sales volumes would have increased 5.4%), and Cariflex volumes increased 0.9%. The negative effect from changes in currency exchange rates between the periods was \$3.4 million.

With respect to revenue for the Polymer segment product groups:

- Cariflex™ revenue was \$124.4 million for the nine months ended September 30, 2017, compared to \$126.5 million for the nine months ended September 30, 2016.

Specialty Polymers revenue was \$285.7 million for the nine months ended September 30, 2017 compared to \$256.2 million for the nine months ended September 30, 2016. The revenue increase was primarily driven by higher average selling prices resulting from higher raw material costs.

Performance Products revenue was \$508.8 million for the nine months ended September 30, 2017 compared to \$403.2 million for the nine months ended September 30, 2016. The increase was primarily driven by higher average selling prices resulting from higher raw material costs.

For the nine months ended September 30, 2017, the Polymer segment operating income was \$95.6 million compared to \$59.9 million for the nine months ended September 30, 2016.

For the nine months ended September 30, 2017, the Polymer segment generated Adjusted EBITDA (non-GAAP) of \$172.2 million compared to \$141.0 million for the nine months ended September 30, 2016. The increase in Adjusted EBITDA was primarily due to improved unit margins, primarily driven by higher selling prices and the impact of cost reduction initiatives. See a reconciliation of GAAP operating income to non-GAAP Adjusted EBITDA below.

## Chemical Segment

The following results of operations for the Chemical segment have been included in our consolidated results since January 6, 2016.

|  | Three<br>Months<br>Ended<br>September<br>30, 2017 | Three<br>Months<br>Ended<br>September<br>30, 2016 | Nine<br>Months<br>Ended<br>September<br>30, 2017 | For the<br>period<br>January 6,<br>2016<br>through<br>September<br>30, 2016 |
|--|---|---|--|---|
| Revenue  | (In thousands)                                    |   |  |   |
| Adhesives  | \$64,159  | \$60,771  | \$192,796  | \$186,903   |
| Performance Chemicals                            | 106,280   | 96,244  | 304,877  | 284,597   |
| Roads and Construction                           | 12,940  | 13,778  | 38,579   | 40,845  |
| Tires  | 13,409  | 10,380  | 37,915   | 30,238  |
|  | \$196,788   | \$181,173   | \$574,167  | \$542,583   |
| Operating income (loss)                          | \$23,706  | \$22,089  | \$66,864   | \$40,894  |
| Adjusted EBITDA (non-GAAP) <sup>(1)</sup>        | \$44,324  | \$41,498  | \$116,505  | \$135,888   |
| Adjusted EBITDA margin (non-GAAP) <sup>(2)</sup> | 22.5  | % 22.9  | % 20.3   | % 25.0 %  |

(1) See non-GAAP reconciliations included below for the reconciliation of each non-GAAP measure to its most directly comparable GAAP measure.

(2) Defined as Adjusted EBITDA as a percentage of revenue.

Three Months Ended September 30, 2017 compared to Three Months Ended September 30, 2016

Revenue for the Chemical segment was \$196.8 million for the three months ended September 30, 2017 compared to \$181.2 million for the three months ended September 30, 2016. Sales volumes were 107.8 kilotons for the three months ended September 30, 2017, an increase of 3.5 kilotons or 3.3%. Adhesives volumes increased 5.1%, Performance Chemicals volumes increased 2.7%, Roads and Construction volumes decreased 1.1%, and Tires volumes increased 12.3%. The positive effect from changes in currency exchange rates between the periods was \$3.7 million.

With respect to revenue for the Chemical segment product groups:

Adhesives revenue was \$64.2 million for the three months ended September 30, 2017 compared to \$60.8 million for the three months ended September 30, 2016. The increase was primarily driven by improved sales volumes.

Performance Chemicals revenue was \$106.3 million for the three months ended September 30, 2017 compared to \$96.2 million for the three months ended September 30, 2016. The increase in revenue was primarily related to higher average selling prices.

Roads and Construction revenue was \$12.9 million for the three months ended September 30, 2017 compared to \$13.8 million for the three months ended September 30, 2016. The decrease in revenue was driven by lower average selling prices and lower sales volumes.

Tires revenue was \$13.4 million for the three months ended September 30, 2017 compared to \$10.4 million for the three months ended September 30, 2016. The increase in revenue was driven by higher average selling prices and improved sales volumes.

For the three months ended September 30, 2017, the Chemical segment operating income was \$23.7 million compared \$22.1 million for the three months ended September 30, 2016.

For the three months ended September 30, 2017, the Chemical segment generated \$44.3 million of Adjusted EBITDA (non-GAAP) compared to \$41.5 million for the three months ended September 30, 2016. The increase in Adjusted EBITDA reflects higher sales volumes and stable overall unit margins compared to 2016. See a reconciliation of GAAP operating income to non-GAAP Adjusted EBITDA below.



Nine Months Ended September 30, 2017 compared to Nine Months Ended September 30, 2016

Revenue for the Chemical segment was \$574.2 million for the nine months ended September 30, 2017 compared to \$542.6 million for the nine months ended September 30, 2016. Sales volumes were 327.5 kilotons for the nine months ended September 30, 2017, an increase of 19.5 kilotons or 6.3%. Adhesives volumes increased 8.6%, Performance Chemicals volumes increased 5.6%, Roads and Construction volumes increased 0.4%, and Tires volumes increased 14.3%. The negative effect from changes in currency exchange rates between the periods was \$1.6 million.

With respect to revenue for the Chemical segment product groups:

Adhesives revenue was \$192.8 million for the nine months ended September 30, 2017 compared to \$186.9 million for the nine months ended September 30, 2016. The increase was primarily driven by improved sales volumes.

Performance Chemicals revenue was \$304.9 million for the nine months ended September 30, 2017 compared to \$284.6 million for the nine months ended September 30, 2016. The increase was primarily attributable to higher average selling prices and to a lesser extent improved sales volumes.

Roads and Construction revenue was \$38.6 million for the nine months ended September 30, 2017 compared to \$40.8 million for the nine months ended September 30, 2016. The decrease in revenue is primarily attributable to lower average selling prices.

Tires revenue was \$37.9 million for the nine months ended September 30, 2017 compared to \$30.2 million for the nine months ended September 30, 2016. The increase was driven by improved sales volumes and higher average selling prices.

For the nine months ended September 30, 2017, the Chemical segment operating income was \$66.9 million compared to \$40.9 million for the nine months ended September 30, 2016.

For the nine months ended September 30, 2017, the Chemical segment generated \$116.5 million of Adjusted EBITDA (non-GAAP) compared to \$135.9 million for the nine months ended September 30, 2016. The decrease in Adjusted EBITDA was primarily due to lower margins indicative of the impact of low-cost C5 hydrocarbon alternatives and pricing pressure for TOFA and TOR products, which more than offset the increase in sales volumes. See a reconciliation of GAAP operating income to non-GAAP Adjusted EBITDA below.

## NON-GAAP FINANCIAL MEASURES

## EBITDA, Adjusted EBITDA, and Adjusted Diluted Earnings Per Share

We consider EBITDA, Adjusted EBITDA, and Adjusted Diluted Earnings Per Share 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 and/or that of other companies in our industry, including period-to-period comparisons. In addition, 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. EBITDA, Adjusted EBITDA, and Adjusted Diluted Earnings Per Share have limitations as analytical tools and in some cases can vary substantially from other measures of our performance. You should not consider any of them in isolation, or as substitutes for analysis of our results under GAAP.

|  | Three Months<br>Ended September<br>30,   |          | Nine Months Ended<br>September 30, |           |
|--|--|----------|------------------------------------|-----------|
|  | 2017                                     | 2016     | 2017                               | 2016      |
|  | (In thousands, except per share amounts) |          |                                    |           |
| EBITDA <sup>(2)</sup>                              | \$60,308                                 | \$82,888 | \$229,476                          | \$221,595 |
| Adjusted EBITDA <sup>(1) (3)</sup>                 | \$121,687                                | \$91,074 | \$288,738                          | \$276,911 |
| Adjusted Diluted Earnings Per Share <sup>(1)</sup> | \$1.51                                   | \$0.63   | \$1.88                             | \$2.07    |

The majority of our consolidated inventory is measured 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. Our ECRC is based on our current expectation of the current cost of our significant raw material inputs. ECRC is developed monthly based on actual market-based contracted rates and spot market purchase rates that are expected to occur in the period. We then adjust the value of the significant raw material inputs and their associated impact to finished goods to the current replacement cost to arrive at an ECRC value for inventory and cost of goods sold. The result of this revaluation from the GAAP carrying value creates the spread between GAAP and ECRC. We maintain our perpetual inventory in our global enterprise resource planning system, where the carrying value of our inventory is determined. With inventory valued under GAAP and ECRC, we then have the ability to report cost of goods sold and therefore Adjusted EBITDA and Adjusted Diluted Earnings Per Share under both our GAAP convention and ECRC.

On a consolidated basis, EBITDA represents net income before interest, taxes, depreciation and amortization. On a reporting segment basis, EBITDA represents segment operating income before depreciation and amortization, disposition and exit of business activities, loss on extinguishment of debt, and earnings of unconsolidated joint venture. Limitations for EBITDA as an analytical tool include the following:

- 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 the 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 the debt agreements; and

• other companies in our industry may calculate EBITDA differently than we do, limiting its usefulness as a comparative measure.

(3) Adjusted EBITDA is EBITDA net of the impact of the spread between the FIFO basis of accounting and ECRC and net of the impact of items we do not consider indicative of our ongoing operating performance. We explain how each adjustment is derived and why we believe it is helpful and appropriate in the reconciliation below. You are encouraged to evaluate each adjustment and the reasons we consider it appropriate for supplemental analysis. As an analytical tool, Adjusted EBITDA is subject to the limitations applicable to EBITDA described above, as



well as the following limitations:

due to volatility in raw material prices, Adjusted EBITDA may, and often does, vary substantially from EBITDA, net income and other performance measures, including net income calculated in accordance with 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.

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.

We compensate for the above limitations by relying primarily on our GAAP results and using EBITDA, Adjusted EBITDA, and Adjusted Diluted Earnings Per Share only as supplemental measures. See our financial statements included in Part I of this Form 10-Q.

We reconcile consolidated net income (loss) and operating income to EBITDA and Adjusted EBITDA as follows:

|  | Three Months Ended<br>September 30, 2017 |          |            | Three Months Ended<br>September 30, 2016 |          |          |
|--|--|----------|------------|--|----------|----------|
|  | Polymer                                  | Chemical | Total      | Polymer                                  | Chemical | Total    |
|  | (In thousands)                           |          |            |  |          |          |
| Net income (loss) attributable to Kraton                                   |  |          | \$(4,033 ) |  |          | \$15,560 |
| Net loss attributable to noncontrolling interest                           |  |          | (818 )     |  |          | (717 )   |
| Consolidated net income (loss)   |  |          | (4,851 )   |  |          | 14,843   |
| Add (deduct):  |  |          |            |  |          |          |
| Income tax expense (benefit)   |  |          | (2,165 )   |  |          | 2,198    |
| Interest expense, net  |  |          | 33,017     |  |          | 33,870   |
| Earnings of unconsolidated joint venture                                   |  |          | (125 )     |  |          | (94 )    |
| Loss on extinguishment of debt   |  |          | 15,632     |  |          | —        |
| Operating income   | \$17,802                                 | \$23,706 | 41,508     | \$28,728                                 | \$22,089 | 50,817   |
| Add (deduct):  |  |          |            |  |          |          |
| Depreciation and amortization  | 17,342                                   | 16,965   | 34,307     | 14,977                                   | 17,000   | 31,977   |
| Loss on extinguishment of debt   | (15,632 )                                | —        | (15,632 )  | —  | —        | —        |
| Earnings of unconsolidated joint venture                                   | 125                                      | —        | 125        | 94                                       | —        | 94       |
| EBITDA   | 19,637                                   | 40,671   | 60,308     | 43,799                                   | 39,089   | 82,888   |
| Add (deduct):  |  |          |            |  |          |          |
| Transaction, acquisition related costs, restructuring, and other costs (a) | 2,240                                    | 61       | 2,301      | 7,216                                    | 530      | 7,746    |
| Loss on extinguishment of debt   | 15,632                                   | —        | 15,632     | —  | —        | —        |
| Weather related costs (b)  | 760                                      | 1,320    | 2,080      | —  | —        | —        |
| KFPC startup costs (c)   | 2,424                                    | —        | 2,424      | 1,421                                    | —        | 1,421    |
| Non-cash compensation expense  | 2,219                                    | —        | 2,219      | 2,141                                    | —        | 2,141    |
| Spread between FIFO and ECRC   | 34,451                                   | 2,272    | 36,723     | (5,001 )                                 | 1,879    | (3,122 ) |
| Adjusted EBITDA  | \$77,363                                 | \$44,324 | \$121,687  | \$49,576                                 | \$41,498 | \$91,074 |

(a) Charges related to the evaluation of acquisition transactions, severance expenses, and other restructuring related charges.

(b) Costs related to Hurricane Harvey and Hurricane Irma.

(c) Startup costs related to the joint venture company, KFPC.

|  | Nine Months Ended September 30, 2017 |           |           | Nine Months Ended September 30, 2016 |           |           |
|--|--------------------------------------|-----------|-----------|--------------------------------------|-----------|-----------|
|  | Polymer                              | Chemical  | Total     | Polymer                              | Chemical  | Total     |
|  | (In thousands)                       |           |           |                                      |           |           |
| Net income attributable to Kraton  |                                      |           | \$27,941  |                                      |           | \$111,048 |
| Net loss attributable to noncontrolling interest                           |                                      |           | (5,178 )  |                                      |           | (1,792 )  |
| Consolidated net income  |                                      |           | 22,763    |                                      |           | 109,256   |
| Add (deduct):  |                                      |           |           |                                      |           |           |
| Income tax expense (benefit)   |                                      |           | 2,907     |                                      |           | (83,024 ) |
| Interest expense, net  |                                      |           | 101,766   |                                      |           | 101,450   |
| Earnings of unconsolidated joint venture                                   |                                      |           | (370 )    |                                      |           | (274 )    |
| Loss on extinguishment of debt   |                                      |           | 35,370    |                                      |           | 13,423    |
| Disposition and exit of business activities                                |                                      |           | —         |                                      |           | (40,001 ) |
| Operating income   | \$95,572                             | \$66,864  | 162,436   | \$59,936                             | \$40,894  | 100,830   |
| Add (deduct):  |                                      |           |           |                                      |           |           |
| Depreciation and amortization  | 50,439                               | 51,601    | 102,040   | 45,199                               | 48,714    | 93,913    |
| Disposition and exit of business activities                                | —                                    | —         | —         | 40,001                               | —         | 40,001    |
| Loss on extinguishment of debt   | (35,370 )                            | —         | (35,370 ) | (13,423 )                            | —         | (13,423 ) |
| Earnings of unconsolidated joint venture                                   | 370                                  | —         | 370       | 274                                  | —         | 274       |
| EBITDA   | 111,011                              | 118,465   | 229,476   | 131,987                              | 89,608    | 221,595   |
| Add (deduct):  |                                      |           |           |                                      |           |           |
| Transaction, acquisition related costs, restructuring, and other costs (a) | 11,493                               | (509 )    | 10,984    | 19,255                               | 7,773     | 27,028    |
| Disposition and exit of business activities                                | —                                    | —         | —         | (40,001 )                            | —         | (40,001 ) |
| Loss on extinguishment of debt   | 35,370                               | —         | 35,370    | 13,423                               | —         | 13,423    |
| Effect of purchase price accounting on inventory valuation (b)             | —                                    | —         | —         | —                                    | 24,719    | 24,719    |
| Weather related costs (c)  | 760                                  | 1,320     | 2,080     | —                                    | —         | —         |
| KFPC startup costs (d)   | 9,664                                | —         | 9,664     | 3,280                                | —         | 3,280     |
| Non-cash compensation expense  | 7,366                                | —         | 7,366     | 7,272                                | —         | 7,272     |
| Spread between FIFO and ECRC   | (3,431 )                             | (2,771 )  | (6,202 )  | 5,807                                | 13,788    | 19,595    |
| Adjusted EBITDA  | \$172,233                            | \$116,505 | \$288,738 | \$141,023                            | \$135,888 | \$276,911 |

(a) Charges related to the evaluation of acquisition transactions, severance expenses, and other restructuring related charges.

(b) Higher costs of goods sold for our Chemical segment related to the fair value adjustment in purchase accounting for their inventory.

(c) Costs related to Hurricane Harvey and Hurricane Irma.

(d) Startup costs related to the joint venture company, KFPC.

We reconcile GAAP Diluted Earnings Per Share to Adjusted Diluted Earnings Per Share (non-GAAP) as follows:

|  | Three Months<br>Ended<br>September 30, |         | Nine Months<br>Ended<br>September 30, |         |
|--|--|---------|---------------------------------------|---------|
|  | 2017                                   | 2016    | 2017                                  | 2016    |
| Diluted earnings (loss) per share  | \$(0.13)                               | \$0.49  | \$0.88                                | \$3.56  |
| Transaction, acquisition related costs, restructuring, and other costs (a) | 0.05                                   | 0.20    | 0.25                                  | 0.72    |
| Disposition and exit of business activities                                | —                                      | —       | —                                     | (0.82 ) |
| Loss on extinguishment of debt   | 0.32                                   | —       | 0.72                                  | 0.28    |
| Weather related costs (b)  | 0.04                                   | —       | 0.04                                  | —       |
| Effect of purchase price accounting on inventory valuation (c)             | —                                      | —       | —                                     | 0.63    |
| KFPC startup costs (d)   | 0.04                                   | 0.02    | 0.16                                  | 0.04    |
| Valuation allowance (e)  | —                                      | —       | —                                     | (2.77 ) |
| Spread between FIFO and ECRC   | 1.19                                   | (0.08 ) | (0.17 )                               | 0.43    |
| Adjusted diluted earnings per share (non-GAAP)                             | \$1.51                                 | \$0.63  | \$1.88                                | \$2.07  |

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(a) Charges related to the evaluation of acquisition transactions, severance expenses, and other restructuring related charges.

(b) Costs related to Hurricane Harvey and Hurricane Irma.

(c) We had higher costs of goods sold for our Chemical segment related to the fair value adjustment in purchase accounting for their inventory.

(d) Startup costs related to the joint venture company, KFPC.

(e) Reduction of income tax valuation allowance related to the assessment of our ability to utilize net operating losses in future periods.

#### Critical Accounting Policies

For a discussion of our critical accounting policies and estimates that require the use of significant estimates and judgments, see “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Critical Accounting Policies” in our Annual Report on Form 10-K for the fiscal year ended December 31, 2016.

## LIQUIDITY AND CAPITAL RESOURCES

Senior Secured Term Loan Facility. In January 2016, we entered into a senior secured term loan facility (the “Term Loan Facility”) pursuant to which Kraton Polymers LLC (the “U.S. Term Loan Borrower”) made U.S. dollar denominated term loan borrowings in an aggregate principal amount of \$1,350.0 million. On August 16, 2017, we entered into a Fourth Amendment (the “Fourth Amendment”) to the credit agreement governing the Term Loan Facility (as amended, the “Credit Amendment”) pursuant to which Kraton Polymers Holdings B.V., a wholly-owned Dutch subsidiary of Kraton Corporation (the “Euro Term Loan Borrower” and, together with the U.S. Term Loan Borrower, the “Term Loan Borrowers”), borrowed a new tranche of term loans denominated in Euros in an aggregate principal amount equal to €260.0 million, or \$305.0 million (converted at the August 16, 2017 closing exchange rate). The proceeds from borrowings under the Euro Tranche were used, together with available cash, to pay down \$366.0 million of the outstanding borrowings under the USD Tranche. As of September 30, 2017, we had \$500.0 million in borrowings under the USD Tranche and €238.0 million, or \$281.0 million (converted at the September 30, 2017 exchange rate), in borrowings under the Euro Tranche. The outstanding borrowings under the USD Tranche also reflect a prepayment in the amount of \$72.0 million during the three months ended March 31, 2016 using proceeds received from the sale of compounding assets, a prepayment in the amount of \$392.0 million during the three months ended March 31, 2017 with the proceeds received in connection with the offering of the 7.0% Senior Notes (see below description of borrowings).

The maturity date of the Term Loan Facility is January 6, 2022. Subject to compliance with certain covenants and other conditions, contained within the Credit Agreement, the Term Loan Borrowers have the option to borrow up to \$350.0 million of incremental term loans plus an additional amount subject to a senior secured net leverage ratio. Borrowings under the USD Tranche bear interest at a rate per annum equal to an applicable margin, plus, at our option, either (a) an adjusted LIBOR rate (subject to a 1.0% floor) determined by reference to the costs of funds for U.S. dollar deposits for the interest period relevant to such borrowing adjusted for statutory reserve requirements or (b) an alternate base rate (subject to a 2.0% floor) determined by reference to the highest of (1) the prime rate of Credit Suisse AG, (2) the federal funds effective rate plus 0.5% and (3) the one month adjusted LIBOR rate plus 1.0% per annum. Pursuant to the Fourth Amendment, the applicable margins for adjusted LIBOR rate and alternate base rate borrowings under the USD Tranche were decreased from 4.0% to 3.0% for adjust LIBOR rate borrowings and 3.0% to 2.0% for alternate base rate borrowings, respectively. As of the date of this filing, the effective interest rate for the USD Tranche is LIBOR plus 3.0%. Borrowings under the Euro Tranche bear interest at an adjusted EURIBOR rate (subject to a 0.75% floor) determined by reference to the costs of funds for Euro deposits for the interest period relevant to such borrowing adjusted for statutory reserve requirements plus 2.50%. We are also required to pay customary agency fees in connection with the Term Loan Facility.

Voluntary prepayments on the Term Loan Facility may be made without premium or penalty other than customary “breakage” costs with respect to LIBOR or EURIBOR loans and other than a 1.0% premium in connection with certain repricing transactions consummated within a certain period of time after the closing or subsequent repricing of the Term Loan Facility. Pursuant to the Fourth Amendment, the period during which such prepayment premium may be required under each of the Euro Tranche and the USD Tranche was reset until six months after the effective date of the Fourth Amendment. In the event we have consolidated excess cash flow for any fiscal year, we are required to prepay an amount of borrowings under the Term Loan Facility equal to at least 50.0% of such cash flow by the 90th day after the end of the fiscal year. The prepayment percentage is reduced to 25.0% if our senior secured net leverage ratio is under 2.5:1.0 or 0% if our senior secured net leverage ratio is below 2.0:1.0.

The USD Tranche is guaranteed by Kraton Corporation and certain of our wholly-owned domestic subsidiaries (the “U.S. Term Loan Guarantors”). The Euro Tranche is guaranteed by each of the U.S. Term Loan Guarantors, the U.S. Term Loan Borrower and certain other Dutch subsidiaries of Kraton Corporation (the “Dutch Term Loan Guarantors”), including those Dutch subsidiaries that are also either a borrower or a guarantor under the Euro tranche facility under the ABL Facility.

The obligations under the Term Loan Facility are secured, subject to certain exceptions, by (i) a first-lien pledge of 100% of the equity interests held by Kraton Corporation, the U.S. Term Loan Borrower and the other U.S. Term Loan Guarantors in their respective first-tier domestic subsidiaries and 65% of the equity interests directly held by such

entities in their first-tier foreign subsidiaries, (ii) a first-priority security interest in substantially all tangible and intangible assets of Kraton Corporation, the U.S. Term Loan Borrower and the other U.S. Term Loan Guarantors, other than the ABL Priority Collateral (as defined below), and (iii) a perfected second-priority security interest in all of the ABL Priority Collateral. The Euro Tranche is also secured by a first-lien pledge of 100% of the equity interests in the Euro Term Loan Borrower and the Dutch Term Loan Guarantors and a first-lien pledge of any intercompany notes or instruments evidencing intercompany indebtedness owed to the Euro Term Loan Borrower or the guarantors of the Euro Tranche that are not U.S. Term Loan Guarantors.

The Term Loan Facility contains a number of customary affirmative and negative covenants. As of the date of this filing, we were in compliance with the covenants under the Term Loan Facility.

10.5% Senior Notes due 2023. Kraton Polymers LLC and its wholly-owned financing subsidiary Kraton Polymers Capital Corporation issued \$440.0 million aggregate principal amount of 10.5% Senior Notes due 2023 (the “10.5% Senior Notes”) that mature on April 15, 2023. The 10.5% Senior Notes are general unsecured, senior obligations and are unconditionally guaranteed on a senior unsecured basis by each of Kraton Corporation and certain of our wholly-owned domestic subsidiaries. We pay interest on the Senior Notes at 10.5% per annum, semi-annually in arrears on April 15 and October 15 of each year. Prior to October 15, 2018, we may redeem up to 40.0% of the aggregate principal amount of the 10.5% Senior Notes with the net proceeds of certain equity offerings at a redemption price equal to 110.5% of the principal amount of the 10.5% Senior Notes plus accrued and unpaid interest, if any, to the date of redemption. At any time prior to October 15, 2018, we may redeem some or all of the 10.5% Senior Notes at a redemption price equal to 100.0% of the principal amount of the notes redeemed plus accrued and unpaid interest, if any, to the redemption date and a “make-whole” premium. On and after October 15, 2018, 2019, 2020, and 2021 and thereafter, we may redeem all or a part of the 10.5% Senior Notes for 107.875%, 105.250%, 102.625%, and 100.0% of the principal amount, respectively.

7.0% Senior Notes due 2025. Kraton Polymers LLC and its wholly-owned financing subsidiary Kraton Polymers Capital Corporation issued \$400.0 million aggregate principal amount of 7.0% Senior Notes due 2025 (the “7.0% Senior Notes”) in March 2017, which mature on April 15, 2025. The 7.0% Senior Notes are general unsecured, senior obligations and are unconditionally guaranteed on a senior unsecured basis by each of Kraton Corporation and certain of our wholly-owned domestic subsidiaries. We pay interest on the Senior Notes at 7.0% per annum, semi-annually in arrears on January 15 and July 15 of each year. We made the first interest payment on July 15, 2017. Prior to April 15, 2020, we may redeem up to 40.0% of the aggregate principal amount of the 7.0% Senior Notes with the net proceeds of certain equity offerings at a redemption price equal to 107.0% of the principal amount of the 7.0% Senior Notes plus accrued and unpaid interest, if any, to, but excluding, the date of redemption. At any time prior to April 15, 2020, we may redeem some or all of the 7.0% Senior Notes at a redemption price equal to 100.0% of the principal amount of the notes redeemed plus accrued and unpaid interest, if any, to, but excluding, the redemption date and a “make-whole” premium. On and after April 15, 2020, 2021, and 2022 and thereafter, we may redeem all or a part of the 7.0% Senior Notes for 105.250%, 102.625%, and 100.0% of the principal amount, respectively.

ABL Facility. In January 2016, we entered into an amended and restated asset-based revolving credit facility that provides financing of up to \$250.0 million (the “ABL Facility”). We did not have any borrowings drawn under this facility as of September 30, 2017. The ABL Facility is primarily secured by receivables and inventory, and borrowing availability under the ABL Facility is subject to borrowing base limitations based on the level of receivables and inventory available for security. Revolver commitments under the ABL Facility consist of U.S. and Dutch revolving credit facility commitments, and the terms of the ABL Facility require the U.S. revolver commitment comprises at least 60.0% of the commitments under the ABL Facility.

The ABL Facility provides that we have the right at any time to request up to \$100.0 million of additional commitments under this facility, provided that we satisfy additional conditions described in the credit agreement and provided further that the U.S. revolver commitment comprises at least 60.0% of the commitments after giving effect to such increase. We cannot guarantee that all of the lending counterparties contractually committed to fund a revolving credit draw request will actually fund future requests, although we currently believe that each of the counterparties would meet their funding requirements. The ABL Facility terminates on January 6, 2021; however, we may, from time to time, request that the lenders extend the maturity of their commitments; provided among other things, that at no time shall there be more than four different maturity dates under the ABL Facility.

Borrowings under the ABL Facility bear interest at a rate per annum equal to the applicable margin plus (1) a base rate determined by reference to the prime rate of Bank of America, N.A. in the jurisdiction where the currency is being funded or (2) LIBOR for loans that bear interest based on LIBOR. The initial applicable margin for borrowings under the ABL Facility is 0.5% with respect to U.S. base rate borrowings and 1.5% with respect to LIBOR or borrowings made on a European base rate. The applicable margin ranges from 0.5% to 1.0% with respect to U.S. base rate borrowings and 1.5% to 2.0% for LIBOR or borrowings made on a European base rate per annum based on the

average excess availability for the prior fiscal quarter. In addition to paying interest on outstanding principal amounts under the ABL Facility, we are required to pay a commitment fee in respect of the un-utilized commitments at an annual rate of 0.375%.

All of the obligations under the ABL Facility are guaranteed by Kraton Corporation and certain of our wholly-owned domestic subsidiaries (the "ABL U.S. Guarantors"). Certain foreign obligations under the ABL Facility are also guaranteed by certain other wholly-owned subsidiaries of Kraton Corporation (the "ABL Dutch Guarantors"). In connection with the Fourth Amendment, on August 16, 2017, we entered into a First Amendment and Consent to the ABL Facility (the "ABL Amendment"). The ABL Amendment provides, among other things, that any foreign subsidiary of Kraton Corporation that becomes a guarantor under the Euro Tranche will also become a guarantor under the Euro tranche facility of the ABL Facility.



All obligations under the ABL Facility are secured, subject to certain exceptions, by (i) a first-priority security interest in, among other things, accounts, inventory and cash of the ABL U.S. Guarantors (the “ABL Priority Collateral”), and (ii) a perfected second-priority security interest in substantially all tangible and intangible assets of the ABL U.S. Guarantors that are not ABL Priority Collateral. Certain foreign obligations under the ABL Facility are also secured, subject to certain exceptions, by, a first priority security interest in, among other things, accounts, inventory and cash of the ABL Dutch Guarantors.

The ABL Facility contains a number of customary affirmative and negative covenants, including financial covenant requiring us to maintain a minimum fixed charge coverage ratio of 1.0:1.0 if availability under the ABL facility is below a specified amount. As of the date of this filing, we were in compliance with the covenants under the ABL Facility.

**KFPC Loan Agreement.** On July 17, 2014, KFPC entered into a syndicated loan agreement (the “KFPC Loan Agreement”) in the amount of 5.5 billion New Taiwan Dollars (“NTD”), or \$181.2 million (converted at the September 30, 2017 exchange rate), to provide additional funding to construct the hydrogenated styrenic block copolymer (“HSBC”) facility in Taiwan and to provide funding for working capital requirements and/or general corporate purposes.

The KFPC Loan Agreement is comprised of a NTD 4.29 billion Tranche A, or \$141.3 million (converted at the September 30, 2017 exchange rate), to fund KFPC’s capital expenditures, and a NTD 1.21 billion Tranche B, or \$39.9 million (converted at the September 30, 2017 exchange rate), to fund working capital requirements and/or general corporate purposes. As of September 30, 2017, NTD 4.4 billion, or \$146.5 million (converted at the September 30, 2017 exchange rate) was drawn on the KFPC Loan Agreement. The facility period of the KFPC Loan Agreement is five years from January 17, 2015 (the first drawdown date). KFPC was able to draw on the KFPC Loan Agreement for the first 28 months following the first drawdown date, which ended in May 2017. Subject to certain conditions, KFPC can request a two-year extension of the term of the KFPC Loan Agreement.

The total outstanding principal amount is payable in six semi-annual installments. The first installment payment was made on July 17, 2017 and each subsequent payment will be due every six months thereafter. The first five installments will be in an amount equal to 10% of the outstanding principal amount and the final installment will be in an amount equal to the remaining 50% of the outstanding principal amount. In the event the extension period is granted, the final 50% of the outstanding principal amount shall be repaid in five equal semi-annual installments with the first installment due on the original final maturity date.

The KFPC Loan Agreement is subject to a variable interest rate composed of a fixed 0.8% margin plus the three-month or six-month fixing rate of the Taipei Interbank Offered Rate (depending on the interest period selected by KFPC in the drawdown request or the interest period notice), subject to a floor of 1.7%. Interest is payable on a monthly basis. For the three and nine months ended September 30, 2017, our effective interest rate for borrowings on the KFPC Loan Agreement was 1.8%.

The KFPC Loan Agreement contains certain financial covenants that change during the term of the KFPC Loan Agreement. The financial covenants include a maximum debt to equity ratio of 2.0:1.0 in 2017 and 1.2:1.0 in 2018; a minimum tangible net worth requirement of \$50.0 million through 2018, which will increase to \$100.0 million in 2019; and a minimum interest coverage ratio requirement of 5.0:1.0 commencing in 2017. In each case, these covenants are calculated and tested on an annual basis at December 31<sup>st</sup> each year. Formosa Petrochemical Corporation and Kraton Polymers LLC are the guarantors of the KFPC Loan Agreement with each guarantor guaranteeing 50% of the indebtedness.

#### Known Trends and Uncertainties

Kraton Corporation is a holding company without any operations or assets other than the operations of its subsidiaries. Cash flows from operations of our subsidiaries, cash on hand, and available borrowings under the Term Loan Facility and ABL Facility are our principal sources of liquidity.

Based upon current and anticipated levels of operations, we believe that cash flows from operations of our subsidiaries, cash on hand, and borrowings available to us will be sufficient to fund our expected financial obligations, planned capital expenditures, and anticipated liquidity requirements, including working capital requirements, our investment in the KFPC joint venture, debt payments, interest payments, benefit plan contributions, and income tax

obligations.

Our cash flows are subject to a number of risks and uncertainties, including, but not limited to, earnings, sensitivities to the cost of raw materials, seasonality, and fluctuations in foreign currency exchange rates. Because feedstock costs generally represent a substantial portion of our cost of goods sold, in periods of rising feedstock costs, we generally consume cash in operating activities due to increases in accounts receivable and inventory costs, partially offset by increased value of accounts payable. Conversely, during periods in which feedstock costs are declining, we generate cash flow from decreases in working capital.

Going forward there can be no assurance that our business will generate sufficient cash flow from operations or that future borrowings will be available under the Term Loan Facility and the ABL Facility or any new credit facilities or financing

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arrangements to fund liquidity needs and enable us to service our indebtedness. As of the date of this filing, our available borrowing capacity under the ABL was \$227.9 million, with no borrowings. Subject to compliance with certain covenants and other conditions, we have the option to borrow up to \$350.0 million of incremental term loans plus an additional amount subject to a senior secured net leverage ratio. Our available cash and cash equivalents are held in accounts managed by third-party financial institutions and consist of cash invested in interest bearing funds and operating accounts. To date, we have not experienced any losses or lack of access to our invested cash or cash equivalents; however, we cannot provide any assurance that adverse conditions in the financial markets will not impact access to our invested cash and cash equivalents.

We made contributions of \$10.1 million and \$4.5 million to our pension plans during the nine months ended September 30, 2017 and 2016, respectively. We expect our total pension plan contributions for the year ended December 31, 2017 to be approximately \$12.7 million. Our pension plan obligations are predicated on a number of factors, the primary ones being the return on our pension plan assets and the discount rate used in deriving our pension obligations. If the investment return on our pension plan assets does not meet or exceed expectations during 2017, and the discount rate decreases from the prior year, higher levels of contributions could be required in 2018 and beyond. As of September 30, 2017, we had \$82.7 million of cash and short-term investments related to foreign operations that management asserts are permanently reinvested. As a result of net operating loss carryforwards, management estimates that approximately \$1.7 million of additional cash tax expense would be incurred if this cash were repatriated as a result of the net operating loss carryforwards in the U.S.

Turbulence in U.S. and international markets and economies may adversely affect our liquidity and financial condition, the liquidity and financial condition of our customers, and our ability to timely replace maturing liabilities and access the capital markets to meet liquidity needs, resulting in adverse effects on our financial condition and results of operations. However, to date we have been able to access borrowings available to us in amounts sufficient to fund liquidity needs.

Our ability to pay principal and interest on our indebtedness, fund working capital, make anticipated capital expenditures, and fund our investment in the KFPC joint venture depends on our future performance, which is subject to general economic conditions and other factors, some of which are beyond our control. "See Part I, Item 1A. Risk Factors" in our Annual Report on Form 10-K for the fiscal year ended December 31, 2016 for further discussion.

#### Operating Cash Flows

Net cash provided by operating activities totaled \$135.4 million during the nine months ended September 30, 2017 compared to \$126.1 million during the nine months ended September 30, 2016. This represents a net increase in operating cash flows of \$9.3 million, which was primarily driven by decreases in working capital, partially offset by increases in operating income. The period-over-period changes in working capital are as follows:

- \$63.2 million decrease in cash flows due to increased finished goods inventory;

- \$20.8 million net decrease in cash flows associated with accounts receivables due to higher selling prices;

- \$10.1 million decrease in cash flows associated with other long term liabilities, primarily due to timing of pension payments, and partially offset by a

- \$27.3 million increase in cash flows associated with other payables and accruals primarily related to deferred income, timing of payments for transaction related costs, and timing of interest payments; and a

- \$4.4 million increase in cash flows due to the timing of payments of other items, including accounts payables, related party transactions, and taxes.

#### Investing Cash Flows

Net cash used in investing activities totaled \$88.3 million for the nine months ended September 30, 2017 and \$1,323.9 million for the nine months ended September 30, 2016, which includes \$1,312.1 million related to the Arizona Chemical Acquisition, net of cash acquired, partially offset by \$72.8 million cash received from the sale of certain compounding assets.

#### Expected Capital Expenditures

We currently expect 2017 capital expenditures, excluding expenditures by the KFPC joint venture, will be approximately \$95 million. Included in this estimate is approximately \$17 million for projects associated with our cost reset initiative, approximately \$9 million for projects to achieve operational synergies related to the integration of

Arizona Chemical, and approximately \$50 million for health, safety, environmental, and security and infrastructure and maintenance projects. The remaining anticipated 2017 capital expenditures are primarily associated with projects to optimize the production capabilities of our manufacturing assets, to support our innovation platform, and to upgrade our information technology systems.

#### Financing Cash Flows

Our consolidated capital structure as of September 30, 2017 was approximately 23.6% equity, 75.2% debt and 1.2% noncontrolling interest compared to approximately 19.7% equity, 78.9% debt, and 1.4% noncontrolling interest at December 31, 2016.

During the nine months ended September 30, 2017, we completed a \$400.0 million 7.0% Senior Notes offering and in August 2017, we closed on the €260.0 million “Euro Tranche”. We used the net proceeds of \$758.0 million to prepay principal payments under the USD Tranche. In connection with the Arizona Chemical Acquisition during the nine months ended September 30, 2016, we issued the initial \$1,350.0 million USD tranche of the Term Loan Facility and \$440.0 million of 10.5% Senior Notes. We incurred \$13.9 million deferred financing costs associated with the 2017 repricing of our USD Tranche, the issuance of the \$400.0 million 7.0% Senior Notes offering, and the issuance of the €260.0 million Euro Tranche.

During the nine months ended September 30, 2017 (excluding borrowings under the KFPC Loan Agreement) we decreased Kraton Corporation indebtedness by \$97.7 million, while decreasing cash on hand (excluding KFPC cash) by approximately \$28.3 million.

#### Contractual Commitments

Our contractual obligations are summarized in Part II, Item 7. “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, 2016. See Note 6 Long-Term Debt for changes to our debt maturity schedule. There have been no other material changes to the contractual obligations disclosed in our annual report on Form 10-K for the year ended December 31, 2016.

#### Off-Balance Sheet Arrangements

We are not involved in any material off-balance sheet arrangements as of September 30, 2017, other than operating leases.

**Item 3. Quantitative and Qualitative Disclosures about Market Risk.**

For quantitative and qualitative disclosures about market risk, see Part II, Item 7A, “Quantitative and Qualitative Disclosures About Market Risk,” in our Annual Report on Form 10-K for the fiscal year ended December 31, 2016. There have been no material changes to the quantitative and qualitative disclosures about market risk disclosed in our Annual Report on Form 10-K for the year ended December 31, 2016. See Note 7 Fair Value Measurements, Financial Instruments and Credit Risk for further discussion.

**Item 4. Controls and Procedures.**

**Evaluation of Disclosure Controls and Procedures**

An evaluation of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15 or 15d-15 under the Securities Exchange Act of 1934) was carried out under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer. As of September 30, 2017, based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the design and operation of these disclosure controls and procedures were effective.

**Changes in Internal Control Over Financial Reporting**

We acquired Arizona Chemical on January 6, 2016 and are currently in the process of integrating Arizona Chemical into our existing internal controls over financial reporting. Except for any changes in internal controls related to the integration of Arizona Chemical and its subsidiaries, there were no changes in our internal control over financial reporting during our three months ended September 30, 2017 which were identified in connection with management's evaluation required by paragraph (d) of Rules 13a-15 and 15d-15 under the Securities Exchange Act of 1934 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## PART II. OTHER INFORMATION

### Item 1. Legal Proceedings.

We and certain of our subsidiaries, from time to time, are parties to various other legal proceedings, claims, and disputes that have arisen in the ordinary course of business. These claims may involve significant amounts, some of which would not be covered by insurance. A substantial settlement payment or judgment in excess of our accruals could have a material adverse effect on our financial position, results of operations, or cash flows. While the outcome of these proceedings cannot be predicted with certainty, we do not expect any of these existing matters, individually or in the aggregate, to have a material adverse effect upon our financial position, results of operations, or cash flows. In January 2014, our Belpre, Ohio, facility experienced a mechanical equipment failure due to inclement weather that resulted in a release of process solvents into nearby waterways. Applicable authorities were notified, and cleanup activities have been completed. Kraton may be required to pay governmental fines or sanctions in excess of \$100,000 in connection with this event.

For more information regarding legal proceedings, including environmental matters, see Note 10 Commitments and Contingencies to the Condensed Consolidated Financial Statements.

### Item 1A. Risk Factors.

Readers of this Quarterly Report on Form 10-Q should carefully consider the risks described in our other reports and filings filed with or furnished to the Securities and Exchange Commission, including our prior and subsequent reports on Forms 10-K, 10-Q and 8-K, in connection with any evaluation of our financial position, results of operations and cash flows.

The risks and uncertainties in our most recent Annual Report on Form 10-K are not the only risks that we face. Additional risks and uncertainties not presently known or those that are currently deemed immaterial may also affect our operations. Any of the risks, uncertainties, events or circumstances described therein could cause our future financial condition, results of operations or cash flows to be adversely affected. There have been no material changes from the risk factors disclosed in our most recent Annual Report on Form 10-K.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

None.

Item 3. Default Upon Senior Securities.

None.

Item 4. Mine Safety Disclosures.

Not applicable.

Item 5. Other Information.

None.



Item 6. Exhibits.

Exhibit

Number

- 10.1 Fourth Amendment to Credit and Guarantee Agreement, dated as of August 16, 2017, among Kraton Polymers LLC, as U.S. Borrower and Guarantor, Kraton Polymers Holdings B.V., as Euro Borrower, Kraton Corporation, as Parent, certain subsidiaries of Parent, as Guarantors, the Lenders party thereto from time to time and Credit Suisse AG, Cayman Islands Branch, as Administrative Agent (incorporated by reference to Exhibit 10.1 to Kraton Corporation's Current Report on Form 8-K filed with the SEC on August 17, 2017)
- 10.2 First Amendment and Consent to Amended and Restated Loan, Security and Guarantee Agreement, dated as of August 16, 2017, by and among Kraton Corporation, as Parent, Kraton Polymers U.S. LLC, Kraton Chemical, LLC, and Kraton Polymers Nederland B.V., as Borrowers, certain other subsidiaries of the Parent, as Guarantors, the Lenders party thereto from time to time, and Bank of America, N.A., in its capacity as collateral agent, administrative agent and security trustee (incorporated by reference to Exhibit 10.2 to Kraton Corporation's Current Report on Form 8-K filed with the SEC on August 17, 2017)
- 10.3+ Kraton Corporation Executive Severance Program, as amended and restated September 12, 2017 (incorporated by reference to Exhibit 10.1 to Kraton Corporation's Current Report on Form 8-K filed with the SEC on September 18, 2017)
- 31.1\* Certification of Chief Executive Officer under Section 302 of Sarbanes—Oxley Act of 2002
- 31.2\* Certification of Chief Financial Officer under Section 302 of Sarbanes—Oxley Act of 2002
- 32.1\* Certification Pursuant to Section 906 of Sarbanes—Oxley Act of 2002
- 101\* The following materials from Kraton Corporation Quarterly Report on Form 10-Q for the three and nine months ended September 30, 2017, formatted in XBRL (eXtensible Business Reporting Language): (i) Condensed Consolidated Balance Sheets as of September 30, 2017 and December 31, 2016 (Unaudited), (ii) Condensed Consolidated Statements of Operations for the three and nine months ended September 30, 2017 and 2016 (Unaudited), (iii) Condensed Consolidated Statements of Comprehensive Income for the three and nine months ended September 30, 2017 and 2016 (Unaudited), (iv) Condensed Consolidated Statements of Changes in Equity for the nine months ended September 30, 2017 and 2016 (Unaudited), (v) Condensed Consolidated Statements of Cash Flows for the nine months ended September 30, 2017 and 2016 (Unaudited) and (vi) Notes to Condensed Consolidated Financial Statements (Unaudited)

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\* Filed herewith.

+ Denotes management contract or compensatory plan or arrangement.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

KRATON CORPORATION

Date: October 25, 2017 /s/ Kevin M. Fogarty  
Kevin M. Fogarty  
President and Chief Executive Officer

Date: October 25, 2017 /s/ Stephen E. Tremblay  
Stephen E. Tremblay  
Executive Vice President and Chief Financial Officer