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# Kraton Polymers LLC Third Quarter Earnings Call

November 12, 2009

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## **Forward Looking Statements**

This presentation may include “forward-looking statements” that reflects our plans. Beliefs, expectations and current views with respect to, among other things, future events and financial performance. Forward looking statements are often characterized by the use of words such as “believes,” “estimates,” “expects,” “projects,” “may,” “intends,” “plans” or “anticipates,” or by discussions of strategy, plans or intentions. All forward-looking statements in this presentation are made based on management's current expectations and estimates, which involve risks, uncertainties and other factors that could cause results to differ materially from those expressed in forward-looking statements. Readers are cautioned not to place undue reliance on forward-looking statements. We assume no obligation to update such information.

## **GAAP Disclaimer**

This presentation includes non-GAAP financial measures, including EBITDA, Adjusted EBITDA, and LTM Bank EBITDA. Investors should consider these measures, which we believe investors consider useful in assessing our performance and compliance with our financial covenants, together with the GAAP measures from our financial statements. A reconciliation of the non-GAAP financial measures used in this presentation to the most directly comparable GAAP measures can be found in our press release dated November 12, 2009 and within this material.

## Summary Financial Performance

- Adjusted EBITDA<sup>(1)</sup> for the third quarter of 2009 was 84% of our record 2008 performance
- Adjusted EBITDA<sup>(1)</sup> for the first nine months of 2009 exceeded 2008 results
- LTM Bank EBITDA<sup>(2)</sup> of \$124 million provides \$15 million of leverage cushion

## Business Performance

- Positive volume momentum continued into third quarter
- Maintaining margins despite monomer price increases

## Innovation

- Commercializing a number of new innovations to accelerate growth
- Strong sales of innovation product in the third quarter
- Announced the use of Kraton A in environmentally friendly adhesives and oil gels
- Announced the potential use of Nexar TM in high performance breathable clothing

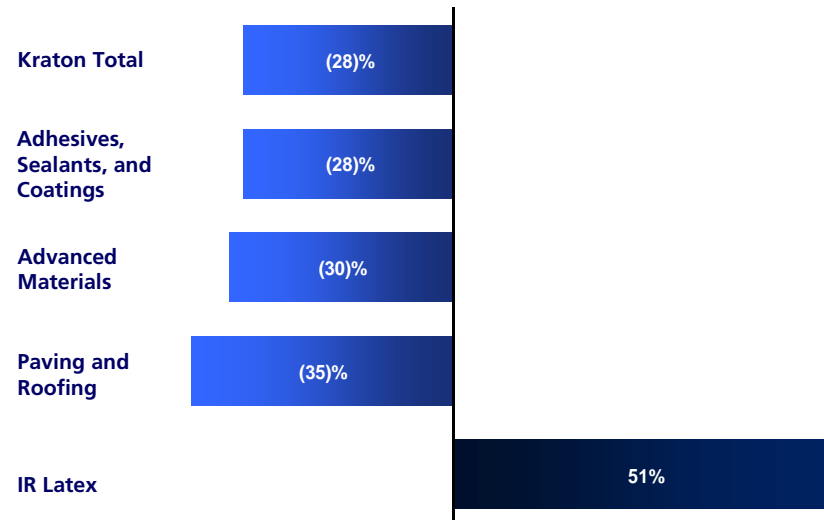
## Cost-Out / Efficiency Gains

- Expect to achieve \$17-\$19 million of cost savings
- Announced exit of our plant in Pernis, the Netherlands resulting in approximately \$12 million of annual cost savings
- Global ERP installation completed in less than 12 months
- Process control upgrade on plan

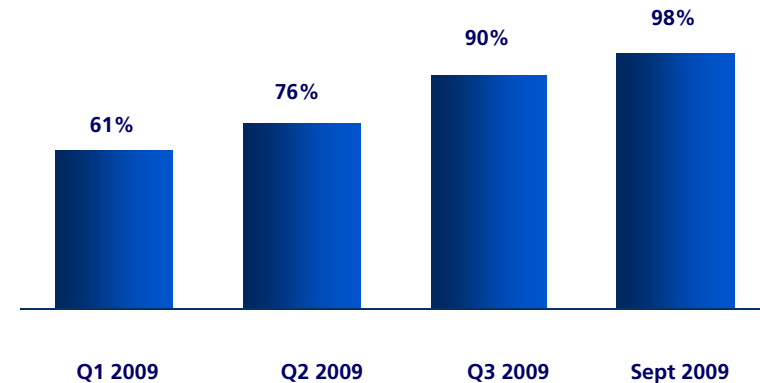
(1) Adjusted EBITDA is defined as EBITDA excluding FIFO vs. replacement cost spread

(2) LTM Bank EBITDA is defined as EBITDA adjusted for items pursuant to the senior secured credit facility

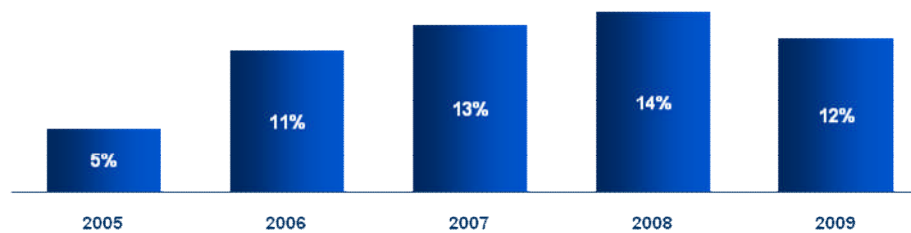
**YTD 2009 vs. YTD 2008  
Revenue Change By End-Use**



**2009 Volume % of Prior Period**



**Innovation Revenue <sup>(1)</sup> as a % of Total Revenue**



- Effect of the slowdown and customers' hesitancy to commit to new projects led to a shortfall in innovation product sales
- We remain extremely optimistic in regards to our innovation pipeline, with our impressive list of recently announced innovative products

(1) Innovation revenue defined as revenues from products (i.e. new polymer, new application of an existing polymer or new step-out production technology) introduced within the last 5 years



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## Third Quarter and Year to Date 2009 Financial Performance

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# Summary Financial Information

(US \$ in millions)



	Third Quarter		YTD September 30	
	2009	2008	2009	2008
Sales Volume (kT)	81	90	199	261
Total Revenues	\$ 289	\$ 382	\$ 717	\$ 994
EBITDA <sup>(1)</sup>	\$ 45	\$ 61	\$ 67	\$ 111
Adjusted EBITDA <sup>(2)</sup>	\$ 32	\$ 38	\$ 99	\$ 72
LTM Bank EBITDA <sup>(3)</sup>			\$ 124	\$ 146
Total Debt			\$ 486	\$ 576
Leverage			3.91	3.94
Interest Coverage			3.66	3.93

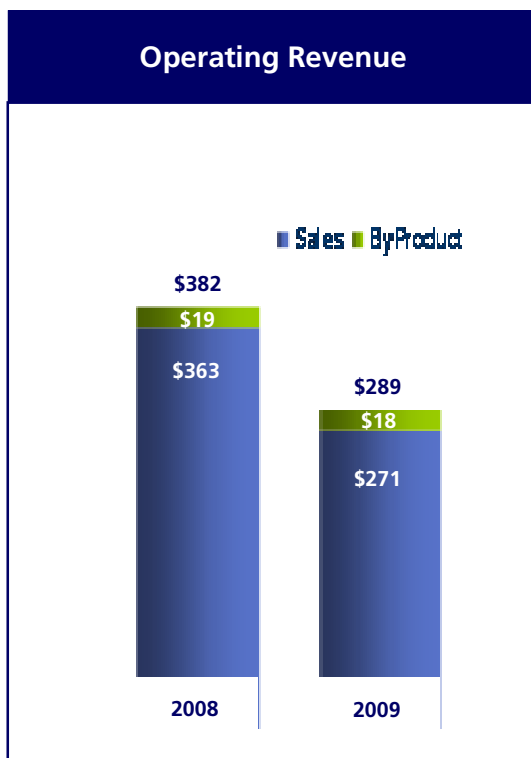
(1) EBITDA is used by management to evaluate operating performance. EBITDA is not a recognized term under GAAP and does not purport to be an alternative to net income (loss) as an indicator of operating performance

(2) Adjusted EBITDA is defined as EBITDA excluding FIFO vs. replacement cost spread

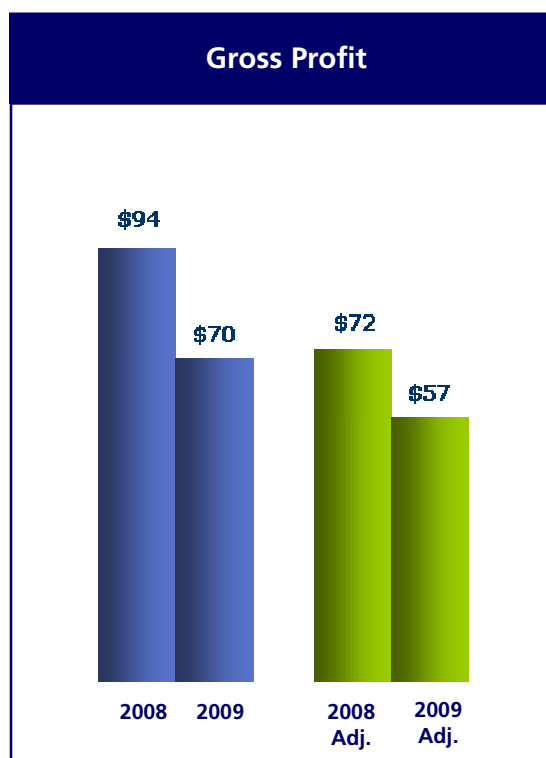
(3) LTM Bank EBITDA is defined as EBITDA adjusted for items pursuant to the senior secured credit facility

# Third Quarter 2009 Financial Summary

(US \$ in millions)



- Price/mix reduced revenue by \$47 million
- Decline in volume equates to \$38 million in revenue
- Foreign exchange rate movements comprises the balance



- Decline in volume equates to \$14 million in gross profit
- Quarter-on-quarter FIFO vs. replacement spread of \$10 million

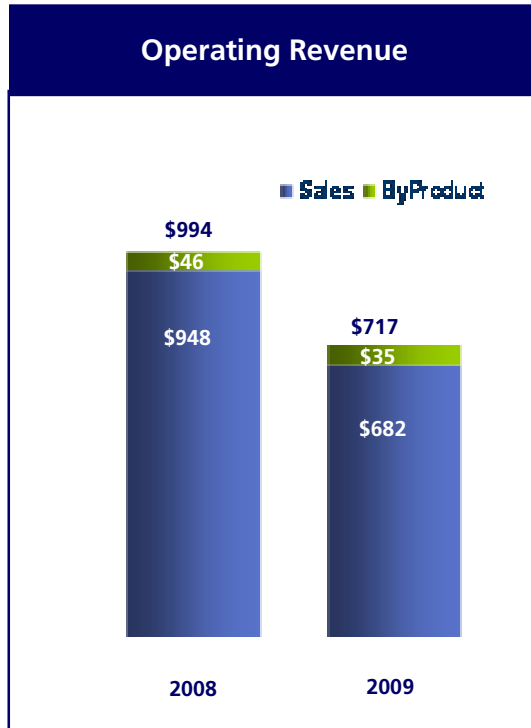


- Includes \$7 million of restructuring and related charges in 2009 vs. \$2 million in 2008
- \$9 million lower R&D and SG&A costs

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 (2) Adjusted EBITDA is defined as EBITDA(1) excluding FIFO vs. replacement cost spread

# Year to Date 2009 Financial Summary

(US \$ in millions)



- Decline in volume equates to \$210 million in revenue
- Price/mix reduced revenue by \$18 million
- Foreign exchange reduced operating revenue by \$39 million



- Decline largely due to lower volume
- Year-on-year FIFO vs. replacement spread of \$71 million



- \$23 million lower R&D and SG&A costs
- \$24 million gain on extinguishment of debt
- Includes approximately \$9 million of restructuring and related costs in both periods

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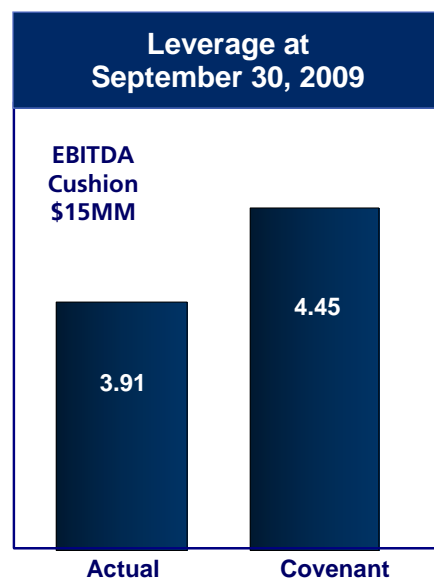


# Capitalization Table and Covenants



US \$ in millions

	Revolver	Term	Sr. Notes	Insurance Bond	Total Debt	Cash	Net Debt
Rate	L+225	L+200	8.125%				
Maturity	May 2011	May 2013	January 2014				
<b>December 31, 2008</b>	<b>\$ 50.0</b>	<b>\$ 325.1</b>	<b>\$ 200.0</b>	<b>\$ -</b>	<b>\$ 575.1</b>	<b>\$ 101.4</b>	<b>\$ 473.7</b>
Increase (Decrease)	(47.0)	(0.9)	(30.0)	3.9	(74.0)	(88.6)	14.6
<b>March 31, 2009</b>	<b>3.0</b>	<b>324.2</b>	<b>170.0</b>	<b>3.9</b>	<b>501.1</b>	<b>12.8</b>	<b>488.3</b>
Increase (Decrease)	(3.0)	(0.8)	(7.0)	(0.9)	(11.7)	4.9	16.6
<b>June 30, 2009</b>	<b>-</b>	<b>323.4</b>	<b>163.0</b>	<b>3.0</b>	<b>489.4</b>	<b>17.7</b>	<b>471.7</b>
Increase (Decrease)	-	(0.8)	-	(3.0)	(3.8)	4.7	(8.5)
<b>September 30, 2009</b>	<b>\$ -</b>	<b>\$ 322.6</b>	<b>\$ 163.0</b>	<b>\$ -</b>	<b>\$ 485.6</b>	<b>\$ 22.4</b>	<b>\$ 463.2</b>



# Recent Developments



## Price Right

- Improving base margins on a replacement cost basis
- Adjusted EBITDA<sup>(1)</sup> above 2008, despite challenging economic conditions

## Innovation-Led Top-line Growth

- Strong sales of innovation product in the third quarter
- Announced the potential use of Nexar™ in high performance breathable clothing
- Announced the use of Kraton A in environmentally friendly adhesives and oil gels

## Capital Structure and Cash

- Amended our senior credit facility providing us the right to seek maturity extensions
- Reduced debt by \$90 million since year-end 2008

## Productivity

- On track to achieve \$17-\$19 million in cost reduction as compared to the \$10 million goal
- Year to date Adjusted EBITDA<sup>(1)</sup> per ton approximately 1.8x 2008
- Global ERP installation complete
- Moving forward with Phase II of the Belpre process control upgrade

<sup>(1)</sup> Adjusted EBITDA is defined as EBITDA<sup>(1)</sup> excluding FIFO vs. replacement cost spread



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## Appendix

November 12, 2009

# Reconciliation of EBITDA and LTM Bank EBITDA



	3 Mos Ended 9/30/09	12 Mos Ended 9/30/09	3 Mos Ended 09/30/08	12 Mos Ended 09/30/08
Net Income (Loss)	\$ 21,865	\$ (5,768)	\$ 34,617	\$ (588)
Income Tax Expense (Benefit)	(1,645)	553	4,910	11,721
Interest Expense, net	8,044	33,771	7,875	38,361
Depreciation and amortization	16,477	53,864	13,118	56,380
<b>EBITDA <sup>(1)</sup></b>	<b>\$ 44,741</b>	<b>82,420</b>	<b>\$ 60,520</b>	<b>106,144</b>
<b>LTM Bank EBITDA adjustments <sup>(2)</sup></b>				
Sponsor fees and expenses		2,000		2,001
Plant turnaround costs		6,000		3,536
Permitted acquisition costs		1,130		3,000
Restructuring costs		10,271		3,220
Specified cost savings		8,583		6,483
Schedule 1.1 cost		3,000		3,000
Equity Investment <sup>(3)</sup>		—		9,588
Other non-cash items increasing Net Income (Loss)		10,811		9,065
<b>LTM Bank EBITDA <sup>(4)</sup></b>		<b>\$ 124,215</b>		<b>\$ 146,037</b>

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

<sup>(2)</sup> These adjustments are made pursuant to the Credit and Guaranty Agreement, amended as of May 12, 2006.

<sup>(3)</sup> On January 14, 2008, we received an equity investment of \$10.0 million of which \$9.6 million was included in LTM Bank EBITDA as provided under the terms of the senior credit facility.

<sup>(4)</sup> LTM Bank EBITDA is defined in the senior credit facility and is used to determine compliance with certain covenants included in the senior credit facility.

# Reconciliation of Adjusted EBITDA to Net Income(Loss)



	<u>3 Mos Ended 9/30/09</u>	<u>3 Mos Ended 9/30/08</u>	<u>9 Mos Ended 9/30/09</u>	<u>9 Mos Ended 9/30/08</u>
Net Income (Loss)	\$21,865	\$34,617	\$1,221	\$35,423
Income Tax Expense (Benefit)	(\$1,645)	\$4,910	(\$482)	\$7,405
Interest Expense, net	8,044	7,875	24,778	27,678
Depreciation and amortization	<u>16,477</u>	<u>13,118</u>	<u>41,582</u>	<u>40,880</u>
EBITDA <sup>(1)</sup>	44,741	60,520	67,099	111,386
FIFO versus replacement spread (Benefit)	<u>(\$12,771)</u>	<u>(\$22,326)</u>	<u>\$31,520</u>	<u>(\$39,449)</u>
Adjusted EBITDA <sup>(2)</sup>	<u><u>\$31,970</u></u>	<u><u>\$38,194</u></u>	<u><u>\$98,619</u></u>	<u><u>\$71,937</u></u>

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(2) Adjusted EBITDA is EBITDA adjusted to reflect current replacement cost of sales.



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