RECONCILIATION OF NON-GAAP FINANCIAL MEASURES TO THE MOST DIRECTLY COMPARABLE GAAP FINANCIAL MEASURES

For the Quarter Ended June 30, 2018

USE OF NON-GAAP FINANCIAL MEASURES

Kraton Corporation ("Kraton") reports its financial information in accordance with generally accepted accounting principles in the United States ("GAAP"). Additionally, Kraton from time to time also presents certain financial measures that may be considered "non-GAAP" financial measures, including EBITDA, Adjusted EBITDA, Adjusted EBITDA margin, Adjusted Diluted Earnings per Share, Consolidated Net Debt Leverage Ratio, Consolidated Net Debt and Net Debt.

Kraton considers these non-GAAP financial measures to be important supplemental measures of its performance and believes they are frequently used by investors, securities analysts, and other interested parties in the evaluation of Kraton's performance including period-to-period comparisons and/or that of other companies in the industry. Further, Kraton's management uses these measures to evaluate operating performance, and Kraton's incentive compensation plan bases incentive compensation payments on Adjusted EBITDA performance and attainment of reduction of Net Debt, along with other factors. These non-GAAP financial measures have limitations as analytical tools and in some cases can vary substantially from other measures of Kraton's performance. You should not consider them in isolation, or as a substitute for analysis of Kraton's results under GAAP.

Each fiscal quarter, Kraton reconciles each of these non-GAAP financial measures with the most directly comparable GAAP financial measure. For additional information on the impact of the spread between the first-in, first-out ("FIFO") basis of accounting and estimated current replacement cost ("ECRC"), see Management's Discussion and Analysis of Financial Condition and Results of Operations in Kraton's most recent Annual Report on Form 10-K.

EBITDA, Adjusted EBITDA, and Adjusted EBITDA Margin

For Kraton's consolidated results, EBITDA represents net income (loss) before interest, taxes, depreciation, and amortization. For each reporting segment, EBITDA represents operating income before depreciation and amortization, and earnings of unconsolidated joint ventures. Among other limitations EBITDA does not: reflect the significant interest expense on Kraton's debt or reflect the significant depreciation and amortization expense associated with long-lived assets; and EBITDA should not be used for purposes of assessing compliance or non-compliance with financial covenants under Kraton's debt agreements. The calculation of EBITDA in Kraton's debt agreements includes adjustments, such as extraordinary, non-recurring or one-time charges, pro forma cost savings, certain non-cash items, turnaround costs, and other items included in the definition of EBITDA in the debt agreements. Other companies in the industry may calculate EBITDA differently than Kraton does, limiting its usefulness as a comparative measure. As an analytical tool, Adjusted EBITDA is subject to all the limitations applicable to EBITDA.

Kraton prepares Adjusted EBITDA by eliminating from EBITDA the impact of a number of items that Kraton does not consider indicative of its on-going performance, including the spread between FIFO and ECRC, but you should be aware that in the future Kraton may incur expenses similar to these adjustments. Kraton's presentation of Adjusted EBITDA should not be construed as an inference that future results will be unaffected by unusual or non-recurring items. In addition, due to volatility in raw material prices, Adjusted EBITDA may, and often does, vary substantially from EBITDA and other performance measures, including net income calculated in accordance with GAAP. Kraton defines Adjusted EBITDA Margin as Adjusted EBITDA as a percentage of revenue (for each reporting segment or on a consolidated basis, if applicable). Because of these and other limitations, EBITDA and Adjusted EBITDA should not be considered as a measure of discretionary cash available to Kraton to invest in the growth of its business.

Adjusted Diluted Earnings Per Share

Kraton prepares Adjusted Diluted Earnings per Share by eliminating from Diluted Earnings (loss) per Share the impact of a number of non-recurring items that Kraton does not consider indicative of on-going performance, including the spread between FIFO and ECRC.

Net Debt and Consolidated Net Debt

Kraton defines Net Debt as total debt (excluding debt of Kraton Formosa Polymers Corporation, our 50/50 joint venture in Taiwan ("KFPC")) less cash and cash equivalents. Kraton defines Consolidated Net Debt as Net Debt plus debt of KFPC less KFPC's cash and cash equivalents. Management uses Net Debt and Consolidated Net Debt to determine outstanding debt obligations that would not readily be satisfied by Kraton's cash and cash equivalents on hand. Management believes that using Net Debt and Consolidated Net Debt is useful to investors in determining leverage since Kraton could choose to use cash and cash equivalents to retire debt. In addition, management believes that presenting Net Debt as excluding KFPC is useful because KFPC has its own capital structure.

Consolidated Net Debt Leverage Ratio

The Consolidated Net Debt leverage ratio is defined as Consolidated Net Debt as of the balance sheet date divided by Adjusted EBITDA for the twelve months then ended. Kraton's use of this term may vary from the use of similarly-titled measures by others in the industry due to the potential inconsistencies in the method of calculation and differences due to items subject to interpretation.

KRATON CORPORATION

RECONCILIATION OF KRATON DEBT TO KRATON NET DEBT AND CONSOLIDATED NET DEBT

	December 31, 2017	December 31, 2016
	(In thousands)	
USD Tranche	$ 485,000	$ 1,278,000
Euro Tranche	198,265	—
10.5% Senior Notes	440,000	440,000
7.0% Senior Notes	400,000	—
ABL	—	—
Capital lease	2,086	3,042
Kraton debt	1,525,351	1,721,042
Kraton cash	75,204	107,599
Kraton net debt	1,450,147	1,613,443
KFPC[(1)(2)] loans	158,349	115,854
KFPC[(1)] cash	13,848	14,150
KFPC[(1)] net debt	144,501	101,704
Consolidated net debt	$ 1,594,648	$ 1,715,147

(1) This amount includes all of the indebtedness of our Kraton Formosa Polymers Corporation (KFPC) joint venture, located in Mailiao, Taiwan, which we own a 50% stake in and we consolidate within our financial statements.

(2) During the fourth quarter of 2017, KFPC executed two revolving credit facilities to provide funding for working capital requirements and/or general corporate purposes. These are in addition to the 5.5 billion NTD KFPC Loan Agreement.

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

KRATON CORPORATION
RECONCILIATION OF NET INCOME (LOSS) ATTRIBUTABLE TO KRATON AND OPERATING INCOME TO ADJUSTED EBITDA (NON-GAAP)
(Unaudited)
(In thousands)

	Three Months Ended December 31, 2017			Three Months Ended December 31, 2016		
	Polymer	Chemical	Total	Polymer	Chemical	Total
Net income (loss) attributable to Kraton			$ 69,608			$ (3,740)
Net income (loss) attributable to noncontrolling interest			275			(876)
Consolidated net income (loss)			69,883			(4,616)
Add (deduct):						
Income tax expense			(60,791)			(8,930)
Interest expense, net			30,693			37,502
Earnings of unconsolidated joint venture			(116)			(120)
Loss on extinguishment of debt			19			—
Disposition and exit of business activities			—			11,585
Operating income	21,830	17,858	39,688	17,955	17,466	35,421
Add:						
Depreciation and amortization	17,559	17,563	35,122	14,731	17,014	31,745
Disposition and exit of business activities	—	—	—	(7,225)	(4,360)	(11,585)
Loss on extinguishment of debt	(19)	—	(19)	—	—	—
Earnings of unconsolidated joint venture	116	—	116	120	—	120
EBITDA	39,486	35,421	74,907	25,581	30,120	55,701
Add (deduct):						
Transaction, acquisition related costs, restructuring, and other costs (a)	1,507	344	1,851	5,780	756	6,536
Disposition and exit of business activities	—	—	—	7,225	4,360	11,585
Loss on extinguishment of debt	19	—	19	—	—	—
Weather related costs (b)	3,385	—	3,385	—	—	—
KFPC startup costs (c)	4,954	—	4,954	2,899	—	2,899
Non-cash compensation expense	261	—	261	1,062	—	1,062
Spread between FIFO and ECRC	1,170	(1,086)	84	(483)	(79)	(562)
Adjusted EBITDA (non-GAAP)	$ 50,782	$ 34,679	$ 85,461	$ 42,064	$ 35,157	$ 77,221

(a) Charges related to the evaluation of acquisition transactions, severance expenses, and other restructuring related charges, which are primarily recorded in selling, general, and administrative expenses.

(b) 2017 costs are related to Hurricane Harvey and Hurricane Irma, which are recorded in cost of goods sold. In 2015, the reduction in costs is due to insurance recoveries related to the Belpre production downtime, which are primarily recorded in cost of goods sold.

(c) Startup costs related to the joint venture company, KFPC, which are recorded in cost of goods sold in 2017 and selling, general, and administrative expenses in 2016.

KRATON CORPORATION
RECONCILIATION OF NET INCOME ATTRIBUTABLE TO KRATON AND OPERATING INCOME TO ADJUSTED EBITDA (NON-GAAP)
(Unaudited)
(In thousands)

	Year Ended December 31, 2017			Year Ended December 31, 2016		
	Polymer	Chemical	Total	Polymer	Chemical	Total
Net income attributable to Kraton			$ 97,549			$ 107,308
Net loss attributable to noncontrolling interest			(4,903)			(2,668)
Consolidated net income			92,646			104,640
Add (deduct):						
Income tax benefit			(57,884)			(91,954)
Interest expense, net			132,459			138,952
Earnings of unconsolidated joint venture			(486)			(394)
Loss on extinguishment of debt			35,389			13,423
Disposition and exit of business activities			—			(28,416)
Operating income	117,402	84,722	202,124	77,891	58,360	136,251
Add:						
Depreciation and amortization	67,998	69,164	137,162	59,930	65,728	125,658
Disposition and exit of business activities	—	—	—	32,776	(4,360)	28,416
Loss on extinguishment of debt	(35,389)	—	(35,389)	(13,423)	—	(13,423)
Earnings of unconsolidated joint venture	486	—	486	394	—	394
EBITDA	150,497	153,886	304,383	157,568	119,728	277,296
Add (deduct):						
Transaction, acquisition related costs, restructuring, and other costs (a)	13,000	(165)	12,835	25,035	8,529	33,564
Disposition and exit of business activities (b)	—	—	—	(32,776)	4,360	(28,416)
Loss on extinguishment of debt	35,389	—	35,389	13,423	—	13,423
Effect of purchase price accounting on inventory valuation (c)	—	—	—	—	24,719	24,719
Weather related costs (d)	4,145	1,320	5,465	—	—	—
KFPC startup costs (e)	14,618	—	14,618	6,179	—	6,179
Non-cash compensation expense	7,627	—	7,627	8,334	—	8,334
Spread between FIFO and ECRC	(2,261)	(3,857)	(6,118)	5,324	13,709	19,033
Adjusted EBITDA (non-GAAP)	$ 223,015	$ 151,184	$ 374,199	$ 183,087	$ 171,045	$ 354,132

(a) Charges related to the evaluation of acquisition transactions, severance expenses, and other restructuring related charges, which are recorded primarily in selling, general, and administrative expenses.

(b) Includes $38.2 million gain on sale of BCU, $3.2 million gain on disposition of joint venture, $4.4 million loss on exit of our Solution Resinates product line, and $8.6 million loss of exit of our NEXAR product line.

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

(d) 2017 costs are related to Hurricane Harvey and Hurricane Irma, which are recorded in cost of goods sold. In 2015, the reduction in costs is due to insurance recoveries related to the Belpre production downtime, which are primarily recorded in cost of goods sold.

(e) Startup costs related to the joint venture company, KFPC, which are recorded in costs of goods sold in 2017 and selling, general, and administrative expenses in 2016.

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

	Three Months Ended December 31,		Years Ended December 31,	
	2017	2016	2017	2016
	(Unaudited)			
Diluted earnings (loss) per share	$ 2.17	$ (0.12)	$ 3.07	$ 3.43
Transaction, acquisition related costs, restructuring, and other costs (a)	0.05	0.18	0.31	0.90
Disposition and exit of business activities (b)	—	0.23	—	(0.59)
Loss on extinguishment of debt	0.14	—	0.87	0.27
Weather related costs (c)	0.09	—	0.13	—
Effect of purchase price accounting on inventory valuation (d)	—	—	—	0.63
KFPC startup costs (e)	0.09	0.04	0.26	0.08
Tax reform repatriation (g)	1.46	—	1.46	—
Tax reform deferred tax rate change (g)	(3.06)	—	(3.06)	—
Valuation Allowance (f)	—	—	—	(2.75)
Spread between FIFO and ECRC	(0.27)	(0.04)	(0.19)	0.39
Adjusted diluted earnings per share (non-GAAP)	$ 0.67	$ 0.29	$ 2.85	$ 2.36

(a) Charges related to the evaluation of acquisition transactions, severance expenses, and other restructuring related charges, which are recorded primarily in selling, general, and administrative expenses.

(b) Includes $38.2 million gain on sale of BCU, $3.2 million gain on disposition of joint venture, $4.4 million loss on exit of our Solution Resinates product line, and $8.6 million loss of exit of our NEXAR product line.

(c) 2017 costs are related to Hurricane Harvey and Hurricane Irma, which are recorded in cost of goods sold. In 2015, the reduction in costs is due to insurance recoveries related to the Belpre production downtime, which are primarily recorded in cost of goods sold.

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

(e) Startup costs related to the joint venture company, KFPC, which are recorded in costs of goods sold in 2017 and selling, general, and administrative expenses in 2016.

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

(g) Tax repatriation and deferred tax rate change relating to the 2017 U.S. Tax Cuts and Jobs Act.