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

FORM 10-K

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

For the fiscal year ended December 31, 2020
or

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

Commission file number
001-34581

KRATONTM

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

(Address of principal executive offices, including zip code)

281 504-4700

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, par value \$0.01	KRA	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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 every Interactive Data File required to be submitted 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 such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a 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 Exchange Act.

Large accelerated filer:	<input type="checkbox"/>	Accelerated Filer	<input checked="" type="checkbox"/>
Non-accelerated filer:	<input type="checkbox"/>	Smaller reporting company:	<input type="checkbox"/>
		Emerging growth company:	<input type="checkbox"/>

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 Exchange Act.

Indicate by check mark whether the registrant has filed a report on and attestation to its management’s assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report. Yes No

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

Estimated aggregate market value of the common equity held by nonaffiliates of Kraton Corporation at June 30, 2020: \$390,823,903. Number of shares of Kraton Corporation Common Stock, \$0.01 par value, outstanding at February 22, 2021: 31,894,023.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of Kraton Corporation's proxy statement for the 2021 Annual Meeting of Stockholders are incorporated by reference in Part III of this Annual Report on Form 10-K.

**Index to Annual Report on Form 10-K for
Year Ended December 31, 2020**

	<u>PAGE</u>
<u>PART I</u>	
Item 1. <u>Business</u>	<u>4</u>
Item 1A. <u>Risk Factors</u>	<u>11</u>
Item 1B. <u>Unresolved Staff Comments</u>	<u>25</u>
Item 2. <u>Properties</u>	<u>26</u>
Item 3. <u>Legal Proceedings</u>	<u>27</u>
Item 4. <u>Mine Safety Disclosures</u>	<u>27</u>
<u>PART II</u>	
Item 5. <u>Market for Registrant’s Common Equity, Related Stockholder Matters, and Issuer Purchases of Equity Securities</u>	<u>28</u>
Item 6. <u>Selected Financial Data</u>	<u>30</u>
Item 7. <u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>35</u>
Item 7A. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	<u>52</u>
Item 8. <u>Financial Statements and Supplementary Data</u>	<u>53</u>
Item 9. <u>Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u>	<u>53</u>
Item 9A. <u>Controls and Procedures</u>	<u>53</u>
Item 9B. <u>Other Information</u>	<u>53</u>
<u>PART III</u>	
Item 10. <u>Directors, Executive Officers, and Corporate Governance</u>	<u>54</u>
Item 11. <u>Executive Compensation</u>	<u>54</u>
Item 12. <u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	<u>54</u>
Item 13. <u>Certain Relationships and Related Transactions and Director Independence</u>	<u>54</u>
Item 14. <u>Principal Accountant Fees and Services</u>	<u>54</u>
<u>PART IV</u>	
Item 15. <u>Exhibits and Financial Statement Schedules</u>	<u>55</u>
Item 16. <u>Form 10-K Summary</u>	<u>E-4</u>

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION

Some of the statements and information in this Annual Report on Form 10-K contain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. We may also make written or oral forward-looking statements in our reports on Forms 10-Q and 8-K, in press releases and other written materials and 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 characterized by the use of words such as “outlook,” “believes,” “estimates,” “expects,” “projects,” “may,” “intends,” “plans,” “anticipates,” “foresees,” “future,” or by discussions of strategy, plans, or intentions. The statements in this report that are not historical statements, including, but not limited to, statements regarding our expectations as to the continued impact of the coronavirus (“COVID-19”) pandemic (including governmental and regulatory actions relating thereto) on demand for our products, on the national and global economy and on our customers, suppliers, employees, business and results of operations; the potential impact of actions by our competitors in response to the COVID-19 pandemic on the price and demand for our products; expectations regarding the possibility for future impairment of goodwill or other assets, including as a result of the impact of the COVID-19 pandemic; anticipated benefits of or performance of our products; beliefs regarding opportunities for new, differentiated applications, and other innovations; our ability to obtain necessary regulatory approvals for BIAXAM on our anticipated timeline, or at all, and whether the expected benefits of the product will be realized; our expectations with respect to debt reduction; our expected use of remaining proceeds from the Cariflex transaction; beliefs regarding strengthening relationships with customers; adequacy of cash flows to fund our working capital requirements; our investment in the joint venture with Formosa Petrochemical Corporation (“FPCC”); our expectations regarding indebtedness to be incurred by our joint venture with FPCC; debt payments, interest payments, benefit plan contributions, and income tax obligations; our ability to refinance our debt from time to time; expected benefits from our acquisitions, business dispositions, or other business combinations and expectations regarding our ability to timely execute and close such transactions; our anticipated capital expenditures, health, safety, environmental, and security and infrastructure and maintenance projects, projects to optimize the production capabilities of our manufacturing assets and to support our innovation platform; our ability to fully access our senior secured credit facilities; expectations regarding future dividend payments; expectations regarding our counterparties’ ability to perform, including with respect to trade receivables; estimates regarding tax expense of repatriating certain cash and short-term investments related to foreign operations; expectations regarding differentiated applications; our ability to realize certain deferred tax assets and our beliefs with respect to tax positions; expectations regarding our full year effective tax rate; estimates related to the useful lives of certain assets for tax purposes; expectations regarding our pension contributions; estimates or expectations related to raw material costs or availability, ending inventory levels and related estimated charges; the outcome and financial impact of legal proceedings; expectations regarding the spread between FIFO and ECRC (each as defined herein) in future periods; expectations regarding the impact of extraordinary events such as natural disasters, other weather events, or terrorist attacks; estimated impacts of changing tariff rates; expectations or estimated impacts of anticipated regulatory changes following the 2020 Presidential elections; and projections regarding environmental costs and capital expenditures and related operational savings, 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 the factors set forth in this report, including but not limited to under Part I, Item 1A. “*Risk Factors*” and Part II, Item 7. “*Management’s Discussion and Analysis of Financial Condition and Results of Operations*,” 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.

PART I

Item 1. Business.

THE COMPANY

General

We are a leading global specialty chemicals company that manufactures styrenic block copolymers (“SBCs”), specialty polymers, and high-value performance products primarily derived from pine wood pulping co-products. Our operations are managed through two operating segments: (i) Polymer segment and (ii) Chemical segment. See Note 14 *Industry Segment and Foreign Operations* to the consolidated financial statements for segment reporting of financial results.

Presentation of Financial Statements

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

This Form 10-K includes financial statements and related notes that present the consolidated financial position, results of operations, comprehensive income (loss), and cash flows of Kraton Corporation. 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.

Corporate History

Kraton Corporation was incorporated in 2009 under Delaware law and is the successor to a Delaware limited liability company formed in 2003. In December 2009, we completed our initial public offering and our common stock commenced trading on the New York Stock Exchange (“NYSE”). On January 6, 2016, we completed the acquisition of Arizona Chemical (the “Arizona Chemical Acquisition”).

On March 6, 2020, we completed the sale of our CariflexTM business to Daelim Industrial Co, Ltd. (“Daelim”). As part of the sale, we entered into a multi-year Isoprene Rubber Supply Agreement (“IRSA”) with Daelim. In accordance with the IRSA, we will supply Isoprene Rubber to Daelim for a period of five years, with an optional extension for an additional five years. See Note 4 *Disposition and Exit of Business Activities* for further discussion of the IRSA. We conduct our business through Kraton Polymers LLC and its consolidated subsidiaries.

POLYMER SEGMENT PRODUCTS AND COMMERCIAL APPLICATIONS

SBCs are highly-engineered synthetic elastomers, which we invented and commercialized over 50 years ago. We developed the first unhydrogenated styrenic block copolymers (“USBC”) in 1964 and the first hydrogenated styrenic block copolymers (“HSBC”) in the late 1960s. 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, paving and roofing, and footwear products. Prior to the sale of our Cariflex business, under the Cariflex brand name, we also sold isoprene rubber (“IR”) and isoprene rubber latex (“IRL”), which are non-SBC products primarily used in applications such as medical products, personal care, adhesives, tackifiers, paints, and coatings. As part of the sale, we continue to produce and sell IR in accordance with the IRSA with Daelim.

We believe our SBC products offer many characteristics that help our customers drive towards their sustainability goals. Among others, our SBCs may offer features such as greater recyclability, increased durability that reduces the costly need for maintenance and replacement, and alternatives to less environmentally friendly materials, such as PVCs.

Our SBCs are high performance elastomers that are engineered for a wide range of applications. Our SBC products possess a combination of high strength and low viscosity, which facilitates ease of processing at elevated temperatures and high processing speeds. Our products can be processed in a variety of manufacturing applications, including injection molding, blow molding, compression molding, extrusion and hot melt, and solution applied coatings.

The majority of worldwide SBC production is dedicated to USBCs, which are primarily used in paving, roofing, adhesives, sealants, coatings, and footwear applications. HSBCs, which are significantly more complex and capital-intensive to manufacture than USBCs, are used in applications such as lubricant additives, soft touch and flexible materials, personal hygiene products, medical products, automotive components, certain adhesive and sealant applications, and protective films.

Our Polymer segment products are manufactured and our commercial activities are organized in the following product groups based upon polymer chemistry and process technologies: Performance Products, Specialty Polymers, IR sold exclusively to Daelim in accordance with the IRSA, and Cariflex (prior to March 6, 2020).

Performance Products

Our Performance Products are comprised of USBC product grades, which impart characteristics such as:

- resistance to temperature and weather extremes in roads and roofing;
- resistance to cracking, reduced road noise, and better water dispersion; and
- increased processing flexibility in adhesive formulations for packaging tapes and labels, and materials used in disposable diapers.

In paving and roofing applications, our Performance Products primarily consist of styrene-butadiene-styrene (“SBS”) for use in modified asphalt applications, which in roofing applications produces stronger and more durable felts and shingles, and in paving applications enhances the strength and elasticity of asphalt-based paving compositions over an extended temperature range. In paving applications, we believe our polymers extend road life by allowing pavements to withstand heavy traffic loads and varying climate conditions, and our HiMA technology can reduce required inputs while extending road life in new road construction. Our roofing applications provide a more sustainable alternative by increasing durability and system life. Our sustainable paving applications allow thinner full-depth pavements and longer road life, reducing raw materials required for paving and lessening pollution caused by congestion arising from frequent repairs of roads. Our products primarily compete with chemicals such as styrene-butadiene rubber latex, acetates, polyphosphoric acids and thermoplastic materials like ethylene-propylene-diene-monomer, polyethylene, atactic polypropylene and unmodified asphalts. We believe that customer choice for these markets is driven principally by total end-product cost, temperature performance, bitumen source and application.

In personal care applications, our Performance Products primarily consist of SBS and styrene-isoprene-styrene (“SIS”) for the manufacturing of ultra-thin stretchable films used for the production of diapers. In addition, our SIS polymers are also used in the lamination process for other personal care products. Our products primarily compete against low priced alternatives such as metallocenes. We believe that customer choice for these markets is driven principally by total end-product cost and performance.

In adhesives applications, our Performance Products primarily compete with ethylene-vinyl acetate, polyolefins, and metallocene polyolefins. The choice between these materials is influenced by bond strength, specific adhesion, consistent performance to specification, processing speed, hot-melt application, resistance to water and cost. Our SBCs are compatible with many other formulating ingredients. We believe demand for utilization of SBC-based adhesives is primarily driven by cost reduction and higher performance.

Specialty Polymers. Our Specialty Polymers are comprised of HSBC products that are significantly more complex to produce than our Performance Products. As a result, our Specialty Polymers generally generate higher margins than our Performance Products.

Our Specialty Polymers impart characteristics such as:

- improved flow characteristics for many industrial and consumer sealant and lubricating fluids;
- soft feel in numerous consumer products such as razor handles, power tools, and automobile components;
- impact resistance for demanding engineered plastic applications;
- flexibility for wire and cable plastic outer layers;
- stretch properties in disposable diapers and adult incontinence products;
- resistance to ultraviolet light;
- processing stability and viscosity; and
- elevated temperature resistance.

We believe our HSBC offerings are often the more sustainable choice when compared to alternatives. Among other features, our HSBCs can offer improved recyclability of polyethylene-terephthalate and polypropylene streams, and function as replacements for less sustainable alternatives such as PVC, mainly in medical applications.

Our products primarily compete against a variety of chemical and non-chemical alternatives including, but not limited to, thermoplastic vulcanizate, thermoplastic polyurethane, PVC, thermoplastic polyolefin, polyethylene terephthalate, polycarbonate, polyamide, and ethylene-propylene-diene-monomer based products. We believe demand for our Specialty Polymers portfolio is principally driven by customer-specific needs and the ability to balance performance characteristics such as soft-touch, durability, stretch and impact.

Because many of our products are highly engineered and customized formulations, they require specialized product testing and validation, production and process evaluation. This results in potentially long lead times to achieve customer and industry established approvals. Our innovation-led growth strategy focuses on translating the inherent strengths of our product technologies such as flexibility, resilience, impact and moisture resistance, and aesthetics (clarity and haptics) to target opportunities in which we can expand and/or have the potential to create new market spaces for our solutions.

Cariflex. Prior to the sale of our Cariflex business, we produced Cariflex IR and IRL. Cariflex products were based on synthetic polyisoprene polymer and did 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. Cariflex is included in our results of operations through March 6, 2020.

Isoprene Rubber. In connection with the sale of our Cariflex business, we entered into the IRSA with Daelim, under the terms of which we will supply IR to Daelim for a period of five years, with an optional extension for an additional five years. As the IRSA product sales are at cost, we deferred approximately \$180.6 million of the aggregate purchase price for our Cariflex business. The deferred income will be amortized into revenue as a non-cash transaction when the products are sold. See Note 4 *Disposition and Exit of Business Activities* for further discussion of the IRSA.

CHEMICAL SEGMENT PRODUCTS AND COMMERCIAL APPLICATIONS

We manufacture and sell sustainable, high value products primarily derived from pine wood pulping co-products. We refine and further upgrade two primary feedstocks, crude tall oil (“CTO”) and crude sulfate turpentine (“CST”), both of which are co-products of the wood pulping process, into value-added biobased specialty chemicals. 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 and TOR into derivatives such as dimer acids, polyamide resins, rosin resins, dispersions, and disproportionated resins. We refine CST into terpene monomer fractions, which can be further upgraded into specialty 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. Our products derived from CTO and CST offer sustainable, non-genetically modified (“GMO”), bio-based alternatives.

Our Chemical segment is based predominantly on the refining and upgrading of CTO and CST. We also have the capacity to upgrade hydrocarbon-based raw materials, such as alpha-methyl-styrene (“AMS”), and bio-based gum rosins, where appropriate, and are able to offer tailored solutions for our customers.

The segment’s products are manufactured and our commercial activities are organized in the following product groups based upon end markets and process technologies: Adhesives, Performance Chemicals, and Tires.

Adhesives. We offer a broad range of products to service target adhesives submarkets, including rosin-based tackifiers for packaging and pressure-sensitive adhesive applications, terpene-based tackifiers for bookbinding, hygiene and pressure-sensitive adhesive applications, AMS resins for bookbinding and pressure-sensitive adhesive applications, and hot melt polyamides for flexible packaging, industrial applications, and road marking. We seek to position our renewable, non-GMO, bio-based offerings as the material of choice for producers seeking to meet consumer demand for products that do not use less sustainable and GMO materials, like hydrocarbon-based solutions. We provide rosin based tackifiers with similar performance to hydrocarbon-based alternatives.

Our tackifiers are primarily used in hot melt adhesives, which are heavily used in the packaging submarket. Our focus in packaging is to improve our competitive position by introducing higher quality tackifiers that work in new polymer systems. We believe our efforts to improve functionality of tackifier offerings will enable differentiated and profitable growth in emerging markets.

Roads and Construction. Within the pavement marking submarket, we provide rosin-based binders for the thermoplastic pavement marking submarket and produce insoluble maleic-based tackifiers. We believe our advanced bio-based offerings in the pavement marking submarket enable our customers to formulate more durable road markings, improving sustainability by lessening raw material use.

Performance Chemicals. We serve various submarkets with a wide product offering, providing value across several different applications including, among others, fuel additives, oilfield chemicals, mining fluids, coatings, and metalworking fluids and lubricants. Our products include:

TOFA. Compared to other fatty acids obtained from various vegetable and animal origins, TOFA has a chemical composition characterized by distinctive features used as components in various applications. For example:

<i>End use market (examples)</i>	<i>Features</i>
Coatings	<ul style="list-style-type: none"> • serves as a binder in solvent-based paints as well as in hybrid coatings • preferred over soybean oil due to its higher unsaturation, better reactivity, flexibility, compatibility, and superior sustainability
Mining	<ul style="list-style-type: none"> • lower viscosity and higher affinity with the ore extract allows for a higher recovery yield • preferred over oleic acid
Oilfield chemicals	<ul style="list-style-type: none"> • easier handling, better solubility in drilling muds, as well as higher surface activity and emulsifying power • preferred over oleic acid
Fuel additives	<ul style="list-style-type: none"> • improves the lubricity of low-sulfur diesel fuel, preventing engine fuel pump wear

Dimer Acids. Our dimer acids are used for the production of polyamide resins used in applications such as epoxy coatings, flexographic inks, and high performance adhesive applications. In addition, dimer acids are building blocks in the production of corrosion inhibitors and emulsifiers used in the production and recovery of petroleum and natural gas. Our dimer acids compete with dimer acids derived from other feedstocks such as rapeseed and cottonseed oil.

TOR. TOR is used in all major rosin applications for the manufacture of adhesives, inks, pavement markers, rubber, and paper.

DTO. DTO is a mixture of TOFA and rosin acids. Our DTO is primarily used as an emulsifier for metalworking fluids and lubricants, in which our product offers improved performance attributes and, in many cases, offers a more sustainable alternative by replacing less environmentally friendly hydrocarbon-based chemicals. In these applications, it is sometimes used in place of TOFA.

Terpene Fractions. We supply terpene fractions, alpha-pinene and beta-pinene, and upgrade them mainly as specialty tackifiers for the adhesives market and tread enhancers for the tires market.

Tires. We sell a range of products that enhance the performance and manufacturing of high performance, winter, and all-season tires. Our terpene-based tread enhancement resins optimize wet grip of tire treads while maintaining reduced rolling resistance and enhanced durability which contribute to improved vehicle fuel efficiency. We market our AMS-based tread enhancement additives through product attributes that include reduced rolling resistance, increased durability, wet grip enhancement, and exceptional compatibility with rubber compounds, especially solution styrene-butadiene rubber polymers. We also sell TOFA, DTO, and rosins as processing aids, which provide select functionalities at various steps in the rubber and tire manufacturing process.

We were one of the first companies to supply tread enhancement resins to the tire industry and won early qualifications with innovative tire manufacturers. We believe our tires products are a key enabler for our customers to achieve their sustainability goals. The quest for improved fuel economy has prompted the introduction of silica-based “green tires” in which certain of our products are a key component. AMS resins were the first tread enhancement additive commercialized beyond basic hydrocarbon tackifiers, and we believe they offer a good balance of properties, price, and performance for current generation tires. Our SYLVATRAXX™ terpene-base tread enhancement additives are made of up to 100% bio-renewable materials.

GENERAL

Human Capital

As of December 31, 2020, we had 1,808 employees worldwide, the majority of which were substantial full-time employees. We have collective bargaining agreements in place in multiple global Kraton locations, and employee representatives or employee representative bodies, such as works councils, are established at Kraton facilities across the world. As of December 31, 2020, approximately 24.0% of our employees in the United States were unionized.

To remain a leading global producer of specialty polymers and high-value biobased products derived from pine wood pulping co-products, it is crucial that we continue to attract new and retain our current talent. Through our diverse and inclusive workplace, our comprehensive compensation and benefits, our career management, and our focus on health, safety and employee wellbeing, we strive to support our employees in all aspects of their lives.

Diversity and Inclusion. Innovation at Kraton stems from the diverse perspectives, knowledge, and experiences of our employees. We strive to create an inclusive workplace where all employees are treated with dignity and respect. Our commitment to diversity and inclusion starts at the top with a highly skilled and diverse board of directors. Of our independent

directors, 50% are female, 12.5% are ethnically diverse and 12.5% are based outside of the United States. As of December 31, 2020, women represented 20% of Kraton's full-time executive positions and 24% of full-time employees, globally. Our workforce is globally diverse, with approximately 65% working in North America, 29% in Europe, 1% in South America and 5% in Asia. Our board of directors has ongoing oversight of our diversity and inclusion programs.

Total Rewards. To ensure a compelling total rewards philosophy and practice, we have practices in place to deliver fair and equitable compensation to employees based on their role, contribution, and performance. All full-time employees are covered by a health care package, as applicable in their particular country, and all full-time employees have access to paid annual leave and company-paid holidays, based on the particular country in which they live.

Career Management. Human capital development underpins our efforts to execute our strategy and remain a leading global producer of innovative products. We continually invest in our employees' career growth and provide employees with a wide range of development opportunities. Particularly, our career development framework enables leaders and team members to identify career paths and opportunities. The individual development plan is the first step in this framework. Employees take ownership of their career development in consultation with their leaders and create a plan covering an appropriate time frame, given the person's individual situation. We also conduct an annual assessment of individual performance and provide skills and leadership development training. In 2020, 100% of our in scope employees received an annual performance review.

Health, Safety and Wellness. The physical health, financial wellbeing, life balance, and mental health of our employees is fundamental to our success. We are committed to ensuring that employees have a safe working environment. We conduct internal audits on health and safety issues at our locations. We provide protective equipment to all impacted employees and conduct recurring employee health and detailed safety risk assessments. We also offer training of relevant employees on health and safety risks and best working practices. Twelve of our sites are certified as having responsible care management systems in place.

Throughout the year, we support the physical, financial, and mental wellbeing of all of our employees around the world through regular communications, educational sessions, voluntary progress tracking, wellness challenges, and other incentives. Since the onset of the COVID-19 pandemic, we have taken an integrated approach to helping our employees manage their work and personal responsibilities, with a strong focus on employee wellbeing, health, and safety. Among other actions, we have launched a COVID-19 crisis management team, implemented work-from-home requirements, social-distancing, restrictions on visitors to our facilities, and limited in-person meetings and other gatherings. See *COVID-19 Pandemic* included in Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" for additional information on our response to the COVID-19 pandemic.

Sales and Marketing

Our business is predominantly based on a short sales cycle. We sell our products through a number of channels, including a direct sales force, marketing representatives, and distributors. We use third-party marketing representatives and distributors in markets where they have existing platforms and are more cost effective in completing market coverage. We have long-term relationships and a wide network of distributors across North America, Europe, Latin America, and Asia Pacific.

Our sales personnel are primarily responsible for maintaining relationships with our customer base and providing product advice. In general, they coordinate contact between our customers and our research and development personnel to provide quality control and new product solutions. Our close interaction with our customers has allowed us to develop and maintain what we consider to be strong customer relationships.

Our customers are facing increasing demands for more sustainable products and solutions. As a bio-based supplier of specialty chemicals and as a producer of specialty polymers that provides alternatives to non-recyclable materials, as well as solutions that can facilitate the circular economy, we believe we are positioned to benefit from these developing market trends.

Competition

In each of our markets, we compete on a range of factors, including price, breadth of product availability, product quality, sustainability features, and the speed of service from order to delivery. We believe our customers also base their supply decisions on the supplier's ability to design and produce customized products and the availability of technical support. We also compete against a broad range of alternative materials throughout our product groups, including petrochemical, animal and vegetable-based substitutes. Major competitors in our market include large domestic and international companies. No one or small number of competitors is dominant across all industries in which we compete and no single customer accounted for 10.0% or more of our total revenue during the years ended December 31, 2020, 2019, and 2018.

Sources and Availability of Raw Materials

We use butadiene, styrene, and isoprene as our primary raw materials in our Polymer segment and CTO and CST in our Chemical segment as our primary raw materials.

For our Polymer segment, we procure our raw materials from multiple sources in the U.S. and foreign countries, through a range of short-term and long-term supply agreements.

For our Chemical segment, we have an exclusive long-term supply contract with International Paper, which extends through 2027, under which it has agreed to sell to us, and we have agreed to purchase from it, all of the CTO and CST produced at its paper mills. We also maintain long-standing relationships with other major suppliers of our raw materials in the U.S. and Europe. Additionally, our CTO supply sources are further diversified by our ability to refine and process black liquor soap into CTO in the U.S. Most of our Chemical segment manufacturing facilities are located in close proximity to the facilities of our raw material suppliers, allowing us to procure our raw materials at a low delivered cost. Furthermore, we work directly with our suppliers at their production facilities to enhance their CTO and CST yields through technological improvements, which we believe allows us to maximize our raw material supplies, to improve the efficiency of our suppliers' operations, and to foster strong, long-lasting relationships with them.

We believe that raw material supplies for both segments will be available in quantities sufficient to meet demand in 2021. 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. Each of our reportable segments were impacted to a varying degree in 2020 by the volatility of raw material costs and these conditions may continue in 2021.

Research, Development, and Technology

Our primary research and development activities are conducted in laboratories in Almere, Netherlands; Amsterdam, Netherlands; Houston, Texas; Savannah, Georgia; and Shanghai, China. We also have a world class facility located at our Belpre, Ohio, site that accelerates polymer development efforts and the commercialization of new products and reduces customer qualification lead times. In addition to our core research activities, research and development personnel also support maintenance of ongoing business activities and other support functions. The below details our significant research and development activities:

Core research and development

- new product and process development
- technical support and new application development
- technology platform development

Business support

- safety and regulatory compliance
- operations and quality support
- technical support to sales team and customers

Patents, Trademarks, Copyrights, and Other Intellectual Property Rights

We rely on a variety of intellectual property rights to conduct our business, including patents, trademarks, and trade secrets. We had 850 granted patents and 270 pending patent applications at December 31, 2020. These patents protect our innovative technologies and applications against infringement, and create long-term, sustainable competitive advantages in our core growth markets. Since patents are generally in effect for a period of 20 years from the filing date, and therefore, assuming most of these applications will be granted, we expect a significant portion of our patent portfolio to remain in effect for a significant period. The granted patents and the applications cover both the U.S. and foreign countries. We do not expect that the expiration of any single patent or specific group of patents would have a material impact on our business, and the overall profitability of our business is not dependent on any single patent, trademark, license, or franchise.

Our material trademarks will remain in effect unless we decide to abandon any of them, subject to possible third-party claims challenging our rights. Similarly, our trade secrets will preserve their status as such for as long as they are the subject of reasonable efforts, on our part, to maintain their secrecy. We maintain a number of trade names that are protected by trademark laws.

Governmental Regulation

Our operations in the U.S. and abroad are subject to a wide range of environmental laws and regulations at the international, national, state, and local levels. Matters pertaining to the environment are discussed in Part I, Item 1A. *Risk Factors*; Part I, Item 3. *Legal Proceedings*; and Part II, Item 7. *Management's Discussion and Analysis of Financial Condition and Results of Operations*.

We have made, and intend to continue to make, the expenditures necessary for compliance with applicable laws and regulations relating to health, safety, environmental, risk reduction, and security matters. We incurred capital expenditures in

2020 for regulatory purposes of \$16.2 million and estimate such expenditures will be approximately \$25.1 million in 2021 and \$19.9 million in 2022.

Costs of remediation at our current and former facilities are covered by indemnification agreements, insurance or through allocated reserves. We currently estimate that the costs of remediation will not materially affect our operations or cause us to materially exceed our anticipated level of capital expenditures. Although resolution of environmental liabilities will require future cash outlays, it is not expected that such outlays will materially impact our liquidity position, although there can be no assurance that such impacts would not occur.

Many of our products and operations are subject to laws of the countries in which our products are manufactured or imported. These laws include the Registration, Evaluation, and Authorization of Chemicals (“REACH”) regulation in the European Union. REACH places great responsibility on companies to manage the risks that chemical substances may pose to health and the environment by requiring additional testing, documentation, risk assessments and registrations. These registrations of our chemical substances are a license to operate and are a prerequisite for the Company to manufacture or import our products in the European Union. The Company has successfully registered all required chemical substances to allow manufacturing and import of Kraton products into the European Union. The Company is also actively preparing for future registration needs. The cost of compliance with any new laws or regulations cannot be estimated until the manner in which they will be implemented has been precisely defined.

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.

Available Information

We electronically file reports with the Securities and Exchange Commission (“SEC”), including annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to such reports. The SEC maintains an internet site that contains reports and information statements, and other information regarding issuers that file electronically with the SEC at www.sec.gov. Additionally, information about us, including our reports filed with the SEC, is available through our web site at www.kraton.com. Such reports are accessible at no charge through our web site and are made available as soon as reasonably practicable after such material is filed with or furnished to the SEC. Our website and the information contained on that site, or connected to that site, are not incorporated by reference into this report.

Item 1A. Risk Factors.

Risks Related to Our Industry and Operations

Conditions in the global economy and capital markets, and in the petrochemical industry in particular, may have an adverse effect on our results of operations, financial condition, and cash flow.

Our products are sold in markets that are sensitive to changes in general economic conditions, such as automotive, construction and consumer products. Moreover, the petrochemical industry in general has historically been subject to volatility and cyclical downturns. Downturns in general economic conditions, or in the petrochemical industry in particular, can cause fluctuations in demand for our products, product prices, sales volumes and margins. A decline in the demand for our products or a shift to lower-margin products due to deteriorating economic conditions could adversely affect sales of our products and our profitability and could also result in impairments of certain of our assets.

Our business and operating results have been affected by fluctuating commodity prices, volatile exchange rates and other challenges currently affecting the global economy and our customers. Uncertainty regarding global economic conditions poses a continuing risk to our business, as consumers and businesses may postpone spending in response to tighter credit, negative financial news or declines in income or asset values, which may reduce demand for our products. If global economic and market conditions, or economic conditions in key markets, remain uncertain or deteriorate further, our results of operations, financial condition and cash flows could be materially adversely affected.

The failure of our raw material suppliers to perform their obligations under long-term supply agreements, or our inability to replace or renew these agreements when they expire, could increase our cost for these materials, interrupt production or otherwise adversely affect our results of operations.

Our manufacturing processes use the following primary raw materials: butadiene, styrene, isoprene, CTO, including black liquor soap that we refine into CTO, and CST. We have long-term supply agreements with LyondellBasell Industries (“LyondellBasell”), International Paper, and others to supply our raw material needs in the U.S. and Europe.

However, most of our long-term contracts contain provisions that allow our suppliers to limit, or allocate, the amount of raw materials shipped to us below the contracted amount in certain circumstances. If we are required to obtain alternate sources for raw materials because a supplier is unwilling or unable to perform under raw material supply agreements, if a supplier terminates its agreements with us, if we are unable to renew our existing contract, or if we are unable to obtain new long-term supply agreements to meet changing demand, we may not be able to obtain these raw materials in sufficient quantities, on economic terms, or in a timely manner, and we may not be able to enter into long-term supply agreements on terms as favorable to us, if at all. A lack of availability of raw materials could have a material adverse effect on our results of operations, financial condition and cash flows.

If the availability of our raw materials, including butadiene, styrene, isoprene, CST, and CTO is limited, we may be unable to produce some of our products in quantities sufficient to meet customer demand or on favorable economic terms, which may have an adverse effect on our results of operations, financial condition, and cash flow.

We use butadiene, styrene, and isoprene as our primary raw materials in our Polymer segment and CTO and CST in our Chemical segment and use additional non-primary raw materials in the production of our products. Suppliers may not be able to meet our raw material requirements, and we may not be able to obtain substitute supplies from alternative suppliers in sufficient quantities, on economic terms, or in a timely manner. A lack of availability of our raw materials in the quantities we require to produce our products could result in our inability to meet customer demand and could have a material adverse effect on our results of operations, financial condition and cash flows.

Increases in the costs of our raw materials may occur, which may have an adverse effect on our results of operations, financial condition, and cash flow if those costs cannot be passed through to our customers.

The price of raw materials may be impacted by external factors, including uncertainties associated with war, terrorist attacks, weather and natural disasters, health epidemics or pandemics, civil unrest, the effects of climate change or political instability, plant or production disruptions, strikes or other labor unrest, breakdown or degradation of transportation infrastructure used in the delivery of raw materials or changes in laws or regulations in any of the countries in which we have significant suppliers.

We use butadiene, styrene, and isoprene in our Polymer segment and CTO and CST in our Chemical segment as our primary raw materials. 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 for natural and synthetic rubber.

Our results of operations are directly affected by the cost of raw materials. Since the cost of these primary raw materials comprises a significant amount of our total cost of goods sold, the selling prices for our products and therefore our total revenue is impacted by movements in these raw material costs, as well as by the cost of other inputs. In the past we have experienced erratic and significant changes in the costs of these raw materials, butadiene in particular. In addition, product mix can have an impact on our overall unit selling prices, since we provide an extensive product offering and therefore experience a wide range of unit selling prices. Because of the significant portion of our cost of goods sold represented by these raw materials, our gross profit margins could be adversely affected by changes in the cost of these raw materials if we are unable to pass the increases on to our customers.

Due to volatile raw material prices, there can be no assurance that we can continue to recover raw material costs or retain customers in the future. As a result of our pricing actions, customers may become more likely to consider competitors' products, some of which may be available at a lower cost. Significant loss of customers could result in a material adverse effect on our results of operations, financial condition and cash flows.

Significant fluctuations in raw material costs may result in volatility in our quarterly operating results and impact the market price of our common stock.

We use the FIFO basis of accounting for inventory and cost of goods sold, and therefore gross profit. In periods of raw material price volatility, reported results under U.S. generally accepted accounting principles ("U.S. GAAP") will differ from what the results would have been if cost of goods sold were based on estimated current replacement cost ("ECRC"). Specifically, in periods of declining raw material costs, reported gross profit will be lower under U.S. GAAP than under ECRC, and in periods of rising raw material costs, gross profit will be higher under U.S. GAAP than under ECRC. However, because raw material costs are difficult to predict, we cannot accurately anticipate fluctuations in raw material costs with precision, or effectively or economically hedge against the effects of any such change. If raw material costs fluctuate in a quarter, our results of operations and cash flows will be affected, the magnitude of which could be significant, which could cause our earnings and cash flows to depart from the periodic expectations of financial analysts or investors, and therefore, the market price of our common stock may be volatile as a result.

Maintenance, expansion and refurbishment of our facilities, the construction of new facilities and the development and implementation of new manufacturing processes involve significant risks, which may have an adverse effect on our results of operations, financial condition, and cash flow.

Our facilities may require regulatory or periodic maintenance, upgrading, expansion, refurbishment or improvement. Any unexpected operational or mechanical failure, including failure associated with breakdowns and forced outages, could reduce our facilities' production capacity below expected levels, which would reduce our revenues. Unanticipated capital expenditures associated with maintaining, upgrading, expanding, repairing, refurbishing, or improving our facilities may also reduce profitability. Our facilities may also be subject to unanticipated damage as a result of natural disasters or terrorist attacks, as was the case for our Panama City, Florida, manufacturing facility during Hurricane Michael in October 2018.

If we make any major modifications to our facilities, such modifications likely would result in substantial additional capital expenditures and could prolong the time necessary to bring the facility on line. We may also choose to refurbish or upgrade our facilities based on our assessment that such activity will provide adequate financial returns. However, such activities require time for development and capital expenditures before commencement of commercial operations, and key assumptions underpinning a decision to make such an investment may prove incorrect, including assumptions regarding construction costs and timing, which could have a material adverse effect on our business, financial condition, results of operations and cash flows.

The construction of new manufacturing facilities entails a number of risks, including the ability to begin production within the cost and timeframe estimated and to attract a sufficient number of skilled workers to meet the needs of the new facility. Additionally, our assessment of the projected benefits associated with the construction of new manufacturing facilities is subject to a number of estimates and assumptions, which in turn are subject to significant economic, competitive and other uncertainties that are beyond our control. If we experience delays or increased costs, our estimates and assumptions are incorrect, or other unforeseen events occur, our business, ability to supply customers, financial condition, results of operations and cash flows could be adversely impacted.

Finally, we may not be successful or efficient in developing or implementing new production processes. Innovation in production processes involves significant expense and carries inherent risks, including difficulties in designing and developing new process technologies, development and production timing delays, lower than anticipated manufacturing yields, and product defects. Disruptions in the production process can also result from errors, defects in materials, delays in obtaining or revising operating permits and licenses, returns of product from customers, interruption in our supply of materials or resources, and disruptions at our facilities due to accidents, maintenance issues, or unsafe working conditions, all of which could affect the timing of production ramps and yields. Production issues can lead to increased costs and may affect our ability to meet product demand, which could adversely impact our business and the results from operations.

Third parties provide significant operating and other services under agreements that are important to our business. The failure of these third parties to perform their obligations, or the termination of these agreements could occur, which may have an adverse effect on our results of operations, financial condition, and cash flow.

We are party to agreements with third parties who provide site services, utilities, materials and facilities. Additionally our Berre, France, and Wesseling, Germany, plants are operated and maintained by a third party who also employs and provides substantially all of the staff for those facilities. If relationships with these third parties were to deteriorate or if the agreements for these services were to terminate, we would be forced to obtain these services from other parties or provide them ourselves. Additionally, at Berre and Wesseling, a termination of the third party agreement would require us to relocate our manufacturing facilities at those locations. The failure of our third party service providers and partners at our manufacturing facilities to perform their obligations under, or the termination of, any of these agreements could materially adversely affect our operations and, depending on market conditions at the time of any such termination, we might not be able to enter into substitute arrangements in a timely manner, if at all, and if we are able to enter into a substitute arrangement, it may not be on terms as favorable to us.

Our industry is highly competitive, and we may lose market share to other producers of SBCs, pine-based specialty chemicals or other products that can be substituted for our products, which may have an adverse effect on our results of operations, financial condition, and cash flow.

Our industry is highly competitive, and we face significant competition from both large international producers and from smaller regional competitors. Our competitors may improve their competitive position in our core markets by successfully introducing new products, improving their manufacturing processes, or expanding their capacity or manufacturing facilities. Further, some of our competitors benefit from advantageous cost positions that could make it increasingly difficult for us to compete in markets for less-differentiated applications. If we are unable to keep pace with our competitors' product and manufacturing process innovations or cost position, it could have a material adverse effect on our results of operations, financial condition, and cash flows.

In addition, competition in the various product applications in which we compete is intense. Increased competition from existing or newly developed SBCs, pine-based specialty chemicals or other products may reduce demand for our products in the future, and our customers may decide on alternate sources to meet their requirements. If we are unable to successfully compete with other producers of SBCs or refiners of CTO, or if other products can be successfully substituted for our products, our sales may decline. Our tall oil-based resins compete against hydrocarbon and gum-based resins in the adhesives and inks submarkets, and our TOFA competes against animal and vegetable-based fatty acids. We could be subject to pricing pressure from Chinese manufacturers of gum rosins, and hydrocarbon competitors have introduced metallocene-based products that compete directly with many of our adhesive tackifiers.

Our business is subject to seasonality that may affect our quarterly operating results and impact the market price of our common stock.

Seasonal changes and weather conditions typically affect our sales in our paving (including pavement markings), roofing, and construction applications. In particular, sales volumes generally rise in the warmer months and generally decline during the colder months of fall and winter, or during abnormally wet seasons. In addition, sales into the ink submarket are typically highest in the third quarter of the year due to increased demand for holiday catalog printing. However, because seasonal weather patterns are difficult to predict, we cannot accurately estimate quarterly fluctuations in sales into our paving, roofing, construction, and ink submarkets in any given year.

Seasonality also affects the availability of CTO and CST, two of our primary raw materials. Yields of CTO and CST are higher during the first half of the year, generally peaking during the early summer months, due to the natural growth and associated chemical yield cycles of trees, in addition to higher yields from kraft pulping during the cooler months.

Chemical manufacturing is inherently hazardous, which could result in accidents that disrupt our operations or expose us to significant losses or liabilities.

Hazards associated with chemical manufacturing and the related storage and transportation of raw materials, products and wastes exist in our operations and the operations of other occupants with whom we share manufacturing sites. These hazards could lead to an interruption or suspension of operations and have an adverse effect on the productivity and profitability of a particular manufacturing facility or on our business as a whole. These potential risks include, but are not necessarily limited to:

- pipeline and storage tank leaks and ruptures;
- explosions and fires;
- inclement weather and natural disasters;

- terrorist attacks;
- mechanical failure; and
- chemical spills and other discharges or releases of toxic or hazardous substances or gases.

These hazards may result in personal injury and loss of life, damage to property and contamination of the environment, which may result in a suspension of operations and the imposition of civil or criminal penalties, including governmental fines, expenses for remediation and claims brought by governmental entities or third parties. The loss or shutdown of operations over an extended period at any of our major operating facilities could have a material adverse effect on our industry, reputation, or our financial condition and results of operations. Our property, business interruption and casualty insurance may not fully insure us against all potential hazards incidental to our business.

Our relationship with our employees could deteriorate, which may have an adverse effect on our results of operations, financial condition, and cash flow.

As a manufacturing company, we rely on our employees and good relations with our employees to produce our products and maintain our production processes and productivity. A significant number of our non-U.S. employees are subject to collective bargaining arrangements or works council representation. Approximately 24.0% of our combined U.S. employees are represented by unions. We may not be able to negotiate existing or future arrangements on satisfactory terms or at all, the earliest of which expires in 2021, which may adversely affect our business. If these workers were to engage in a strike, work stoppage or other slowdown, our operations could be disrupted or we could experience higher labor costs, which could adversely affect our business, results of operations, financial condition, and cash flow.

In addition, if our other employees were to become unionized, in particular our employees at our Belpre, Ohio, facility, we could experience significant operating disruptions and higher ongoing labor costs, which could adversely affect our results of operations, financial condition, and cash flow. Because many of the personnel who operate our European facilities are employees of a third party, relations between the third party and its employees may also adversely affect our business, results of operations, financial condition, and cash flow.

Loss of key personnel or our inability to attract and retain new qualified personnel could hurt our business and inhibit our ability to operate and grow successfully.

Our success in the highly competitive markets in which we operate will continue to depend to a significant extent on our key employees. We are dependent on the expertise of our executive officers and other key employees. Loss of the services of any of our executive officers or other key employees could have an adverse effect on our prospects. We may not be able to retain our key employees or to recruit qualified individuals to join our company. The loss of key employees could result in high transition costs and could disrupt our operations.

We generally do not have long-term contracts with our customers, and the loss of customers could adversely affect our sales and profitability.

With some exceptions, our business is based primarily upon individual sales orders by our customers. As such, our customers could cease buying products from us at any time, for any reason, with little or no notice or recourse. If multiple customers elected not to purchase products from us, our business prospects, results of operations, financial condition, and cash flow could be adversely affected.

Domestic or international natural disasters, health epidemics or pandemics, or terrorist attacks may disrupt our operations, decrease the demand for our products or otherwise have an adverse impact on our business.

Chemical-related assets, and U.S. corporations such as ours, may be at a greater risk of future terrorist attacks (including both physical attacks and cyber-attacks) than other possible targets in the U.S. and throughout the world. Moreover, extraordinary events such as natural disasters or global or local health epidemics or pandemics could result in significant damage to our facilities and/or disruption of our operations and may negatively affect local economies, including those of our customers or suppliers. The occurrence of such events cannot be predicted, although their occurrence can be expected to continue to adversely impact the economy in general and our specific markets.

The resulting damage from a natural disaster or terrorist attack could include loss of life, property damage or site closure. Several of our facilities are located in regions where natural disasters have previously disrupted, and may in the future disrupt, our ability to manufacture and deliver products from certain facilities and require us to temporarily declare an excused performance, or *force majeure*, on certain products under our existing agreements with customers. Any damage resulting in stoppage or reduction of our facilities' production capacity could reduce our revenues, and any unanticipated capital expenditures to repair such damage (to the extent not covered by our insurance policies) may reduce profitability. Any, or a combination, of these factors could also adversely impact our results of operations, financial position and cash flows.

In addition, global or local health epidemics and pandemics may result in disruption of our operations. For example, the coronavirus outbreak originating in China at the beginning of 2020 has resulted in closures, quarantines, travel restrictions and extended shutdown of certain businesses in regions in which we operate and has also, to a certain extent, interfered with general commercial activity related to our supply chain and customer base. Going forward, this and other global or local health epidemics and pandemics could have a material adverse effect on our results of operations, financial position, and cash flows.

The COVID-19 pandemic is adversely impacting our business.

We are monitoring and continue to assess the ongoing effects of the COVID-19 pandemic on our business and operations. The scope of the effects of the COVID-19 pandemic and its related economic impact on our business depends on many factors beyond our control, and the effects are difficult to assess or predict with meaningful precision both generally and specifically.

We have taken actions to help ensure the continuity of business through the COVID-19 pandemic, including activating our business continuity plans, implementing other steps to enable employees to work remotely, and safety protocols established within our innovation centers and manufacturing facilities. The impact of these steps on our workforce has presented new challenges for our employees as they balance the demands of the pandemic with their daily operating responsibilities.

Importantly, the COVID-19 pandemic may have a material adverse effect on other third parties upon which we rely, and our ability to assess those effects in any meaningful manner are difficult at this time. In addition, a number of third parties upon which we depend may experience financial difficulties or file for bankruptcy protection. Such third parties may not be able to perform their obligations or may be relieved of their obligations to us as part of the bankruptcy process, which in either case could adversely affect our business.

Lastly, the negative impact on spending globally due to the COVID-19 pandemic may, depending upon the severity, adversely affect several areas of our businesses and may negatively impact our operating results.

Climate change and sustainability initiatives may result in significant operational changes and expenditures and adversely affect our business.

Continuing political and social attention to the issue of climate change and sustainability has resulted in both existing and pending international agreements and national, regional or local legislation and regulatory measures to limit greenhouse gas emissions. These agreements and measures may require, or could result in future legislation and regulatory measures that require, significant equipment modifications, operational changes, taxes, or purchase of emission credits to reduce emission of greenhouse gases from our operations, which may result in substantial capital expenditures and compliance, operating, maintenance and remediation costs.

Risks Related to Financing and Tax

Our substantial indebtedness could adversely affect our financial condition and prevent us from fulfilling our obligations under the terms of our indebtedness, including our senior notes and our senior secured credit facilities.

As of December 31, 2020, we had €85.0 million, or approximately \$104.2 million, in outstanding borrowings under the Euro dollar denominated tranche (the “Euro Tranche”) of our senior secured term loan facility (the “Term Loan Facility”). In addition, we had \$400.0 million of 4.25% Senior Notes due 2025 (the “4.25% Senior Notes”) and €290.0 million (or approximately \$355.4 million) of 5.25% Senior Notes due 2026 (the “5.25% Senior Notes” and, together with the 4.25% Senior Notes, the “Senior Notes”) outstanding as of December 31, 2020. We also have a \$300.0 million asset-based revolving credit facility (as amended, the “ABL Facility”), under which we had no outstanding borrowings as of December 31, 2020. Pursuant to the terms of our Term Loan Facility and ABL Facility, we may request up to an aggregate of \$350.0 million and \$100.0 million, respectively, of additional facility commitments subject to compliance with certain covenants and other conditions.

In addition, our KFPC joint venture has a syndicated loan agreement due in full by January 2022 (“KFPC Loan Agreement”) in the amount of 5.5 billion new Taiwanese dollars (“NTD”) (or approximately \$195.7 million) which provided additional funding to construct the HSBC facility in Taiwan and provided funding for working capital requirements and/or general corporate purposes. FPCC and Kraton Polymers LLC are guarantors of the KFPC Loan Agreement with each guaranteeing fifty percent (50%) of the indebtedness, of which NTD 1.5 billion (or approximately \$52.7 million) of indebtedness was outstanding as of December 31, 2020. KFPC also has revolving credit facilities (the “KFPC Revolving Facilities”) to provide funding for working capital requirements and/or general corporate purposes, which allow for total borrowings of up to NTD 2.2 billion (or approximately \$76.5 million). As of December 31, 2020, NTD 1.0 billion (or approximately \$37.0 million) was drawn on the KFPC Revolving Facilities. Kraton Polymers LLC does not guarantee any of the KFPC Revolving Facilities.

Our current, or any future, indebtedness could:

- make it more difficult for us to satisfy our financial obligations;

- increase our vulnerability to adverse economic, industry, and market conditions;
- increase the risk that we breach financial covenants and other restrictions in our debt agreements, which can be exacerbated by volatility in the cost of our raw materials and the resulting impact on our earnings;
- require us to dedicate a substantial portion of our cash flow from operations to make payments on our indebtedness, thereby reducing the availability of our cash flow to fund working capital, capital expenditures and other general corporate purposes;
- limit our flexibility in planning for, or reacting to, changes in the business and industry in which we operate;
- restrict us from exploiting business opportunities;
- place us at a disadvantage compared to our competitors that have less debt and lease obligations; and
- limit our ability to borrow additional funds for working capital, capital expenditures, acquisitions, debt service requirements, execution of our business strategy and other general corporate purposes or to refinance our existing debt.

In addition, our ability to pay principal of and interest on indebtedness, fund working capital and make anticipated capital expenditures depends on our future performance, which is subject to general economic conditions and other factors, some of which are beyond our control. There can be no assurance that our business will generate sufficient cash flow from operations or that future borrowings will be available under our indebtedness to fund liquidity needs, including debt service. Furthermore, if we decide to undertake additional investments in existing or new facilities, this will likely require additional capital, and there can be no assurance that this capital will be available.

Despite current indebtedness levels and restrictive covenants, we and our subsidiaries may incur additional indebtedness, or we may pay dividends in the future. This could further exacerbate the risks associated with our financial leverage.

We and our subsidiaries may incur significant additional indebtedness in the future under the agreements governing our indebtedness. Although the terms of the Term Loan Facility, the ABL Facility and the Senior Notes contain restrictions on the incurrence of additional indebtedness and the payment of distributions to our equity holders, these restrictions are subject to a number of thresholds, qualifications and exceptions, and the additional indebtedness incurred, and distributions paid, in compliance with these restrictions could be substantial. Additionally, these restrictions also permit us to incur obligations that, although preferential to our common stock in terms of payment, do not constitute indebtedness. As of the date of this filing, we had \$14.0 million of outstanding borrowings under the ABL Facility with a remaining available borrowing capacity of \$175.5 million. In addition, if we and/or our subsidiaries incur new debt, the related risks that we now face as a result of our leverage would intensify.

Our current and future debt instruments may impose significant operating and financial restrictions on us and affect our ability to access liquidity.

Our current debt instruments do, and any future debt instruments may, contain a number of restrictive covenants that impose significant operating and financial restrictions on us. Under the terms of our ABL Facility, we are subject to a financial covenant requiring us to maintain a fixed charge coverage ratio of 1.0 to 1.0 if availability under the facility is below specified amounts. In addition, our debt instruments may include restrictions on our ability to, among other things:

- place liens on our or our restricted subsidiaries' assets;
- make investments other than permitted investments;
- incur additional indebtedness;
- merge, consolidate or dissolve;
- sell assets;
- engage in transactions with affiliates;
- change the nature of our business;
- change our or our subsidiaries' fiscal year or organizational documents; and
- make restricted payments (including certain equity issuances).

A failure by us or our subsidiaries to comply with the covenants and restrictions contained in the agreements governing our indebtedness could result in an event of default under such indebtedness, which could adversely affect our ability to respond to changes in our business and manage our operations. Upon the occurrence of an event of default under any of the agreements governing our indebtedness, the lenders could elect to declare all amounts outstanding to be due and payable and exercise other remedies as set forth in the agreements. Further, an event of default or acceleration of indebtedness under one

instrument may constitute an event of default under another instrument. If any of our indebtedness were to be accelerated, there can be no assurance that our assets would be sufficient to repay this indebtedness in full, which could have a material adverse effect on our ability to continue to operate as a going concern.

To service our current, and any future, indebtedness, we will require a significant amount of cash, which may have an adverse effect on our results of operations, financial condition, and cash flow.

Our ability to generate cash depends on many factors beyond our control, and any failure to meet our debt service obligations could harm our business, financial condition and results of operations. Our ability to make payments on and to refinance our indebtedness, and to fund working capital needs and planned capital expenditures, will depend on our ability to generate cash in the future. This, to a certain extent, is subject to general economic, financial, competitive, business, legislative, regulatory and other factors that are beyond our control, including, among other things, the costs of raw materials used in the production of our products.

If our business does not generate sufficient cash flow from operations or if future borrowings are not available to us in an amount sufficient to enable us to pay our indebtedness, or to fund our other liquidity needs, we may need to refinance all or a portion of our indebtedness on or before the maturity thereof, sell assets, reduce or delay capital investments or seek to raise additional capital, any of which could have a material adverse effect on our operations. We might not generate sufficient cash flow to repay indebtedness as currently anticipated. In addition, we may not be able to effect any of these actions, if necessary, on commercially reasonable terms, or at all. Our ability to restructure or refinance our indebtedness will depend on the condition of the capital markets and our financial condition at such time. Any refinancing of our indebtedness could be at higher interest rates and could require us to comply with more onerous covenants, which could further restrict our business operations. The terms of existing or future debt instruments may limit or prevent us from taking any of these actions. In addition, any failure to make scheduled payments of interest and principal on our outstanding indebtedness would likely result in a reduction of our credit rating, which could harm our ability to incur additional indebtedness on commercially reasonable terms, or at all. Our inability to generate sufficient cash flow to satisfy our debt service obligations, or to refinance or restructure our obligations on commercially reasonable terms would have a material adverse effect on our business, financial condition and results of operations.

Our variable rate indebtedness subjects us to interest rate risk, which could cause our debt service obligations to increase significantly.

Borrowings under the Term Loan Facility, the ABL Facility, KFPC Loan Agreement, and KFPC Revolving Credit Facilities are, and additional borrowings in the future may be, at variable rates of interest that expose us to interest rate risk. If interest rates increase, our debt service obligations on the variable rate indebtedness will increase even though the amount borrowed will remain the same, and our net income and cash flows, including cash available for servicing our indebtedness, will correspondingly decrease. At December 31, 2020, approximately \$193.9 million, or 20.4%, of our \$950.1 million total debt was at a variable rate. Additionally, any interest rate swaps we enter may not fully mitigate our interest rate risk.

Failure to successfully consummate business combination transactions, including the acquisition and integration of, or disposition of, businesses, assets, products or technologies or to realize the financial and strategic goals that were contemplated at the time of any such transaction may adversely affect our future results of operations, financial condition, and cash flow.

From time to time, we may explore and pursue (i) acquisitions and strategic investments in businesses, products or technologies that we believe could complement or expand our business, (ii) dispositions of non-strategic assets, or (iii) other business combination transactions. The expense and effort incurred in exploring and consummating such transactions, the time it takes to integrate an acquisition or our failure to integrate businesses successfully, could result in additional and/or unexpected expenses and losses. For example, an investment in, or acquisition of, complementary businesses, products or technologies in the future could materially decrease the amount of our available cash or require us to seek additional equity or debt financing. We also may not be successful in negotiating the terms of any potential transactions or, in the case of acquisitions or other business combinations, conducting thorough due diligence, financing the transaction or effectively combining businesses or integrating an acquired business, product or technology into our existing business and operations. Acquisitions, dispositions, and other business combinations may also be affected by unanticipated delays, including in obtaining regulatory, governmental, customer or other third party approvals, which may result in such transactions being delayed, or in limited circumstances not being completed at all. In addition, we may decide to abandon a previously disclosed transaction.

Moreover, we may incur significant expenses whether or not a contemplated transaction is ultimately consummated. Failure to consummate an announced transaction may negatively impact our business strategy, which could result in additional costs to correct. Additionally, in connection with any acquisition, disposition, or other business combination we consummate, the synergies or other benefits we expected to achieve may not be realized, including, in the case of dispositions, receipt of the consideration expected from such transaction, and we may incur unanticipated expenses, write-downs, impairment charges or

unforeseen liabilities that could negatively affect our business, financial condition and results of operations, disrupt relationships with current and new employees, customers and vendors, incur significant debt or have to delay or not proceed with announced transactions. We may also face additional challenges and costs after the consummation of the transaction, including those related to integrating or restructuring our operations, information management and other technology systems, while carrying on our ongoing business.

Further, exploring or consummating a disposition, acquisition, or other business combination or integrating an acquired business, product or technology could divert management and employee time and resources from other matters.

Fluctuations in currency exchange rates may significantly impact our results of operations and may significantly affect the comparability of our results between financial periods.

Our operations are conducted by our subsidiaries in many countries. The results of the operations and the financial position of these subsidiaries are reported in the relevant foreign currencies and then translated into U.S. dollars at the applicable exchange rates for inclusion in our consolidated financial statements. The main currencies to which we are exposed, besides the U.S. dollar, are the Euro, Japanese Yen, British Pound, Brazilian Real, Swedish Krona, Chinese Yuan Renminbi, Taiwanese Dollar, and Mexican Peso. The exchange rates between these currencies and the U.S. dollar in recent years have fluctuated significantly and may continue to do so in the future. A depreciation of these currencies against the U.S. dollar will decrease the U.S. dollar equivalent of the amounts derived from these operations reported in our consolidated financial statements and an appreciation of these currencies will result in a corresponding increase in such amounts. Because many of our raw material costs are determined with respect to the U.S. dollar rather than these currencies, depreciation of these currencies may have an adverse effect on our profit margins or our reported results of operations. Conversely, to the extent that we are required to pay for goods or services in foreign currencies, the appreciation of such currencies against the U.S. dollar will tend to negatively impact our results of operations. In addition, currency fluctuations may affect the comparability of our results of operations between financial periods.

We incur currency transaction risk whenever we enter into either a purchase or sale transaction using a currency other than the local currency of the transacting entity. From time to time, we use hedging strategies to reduce our exposure to currency fluctuations. Given the volatility of exchange rates, there can be no assurance that we will be able to effectively manage our currency transaction risks, that our hedging activities will be effective or that any volatility in currency exchange rates will not have a material adverse effect on our financial condition or results of operations.

We may have additional tax liabilities, which may have an adverse effect on our results of operations, financial condition, and cash flow.

We are subject to taxes in the U.S., as well as numerous foreign jurisdictions. Significant judgment is required in determining our provision for income taxes, deferred tax assets and liabilities and any valuation allowances recorded against net deferred tax assets. We make these estimates and judgments about our future taxable income that are based on assumptions that are consistent with our future plans. Tax laws, regulations and administrative practices may be subject to change due to economic or political conditions including fundamental changes to the tax laws applicable to corporate multinationals. The U.S., countries in the European Union and a number of other countries are actively considering changes in this regard.

In addition, our tax returns are subject to examination by the U.S. and other tax authorities and governmental bodies. We regularly assess the likelihood of an adverse outcome resulting from these examinations to determine the adequacy of our provision for taxes. There can be no assurance as to the outcome of the examinations. Changes in tax laws, increase of tax rates, or adverse outcomes resulting from examinations of our tax returns could have a material adverse effect on our business, consolidated results of operations, and consolidated financial condition.

We may be unable to realize the benefits of our net operating loss carry-forwards (“NOLs”).

NOLs may be carried forward to offset taxable income in future years and eliminate income taxes otherwise payable on such taxable income, subject to certain requirements and limitations. Based on various corporate income tax rates in various jurisdictions, our NOLs and other tax attributes carried forward could provide a benefit to us, if fully utilized, of significant future tax savings. However, our ability to use these tax benefits in future years will depend upon the amount of our otherwise taxable income. If we do not have sufficient taxable income in future years to use the tax benefits before they expire, we will lose the benefit of these NOLs permanently.

The amount of NOLs that we have claimed has not been audited or otherwise validated by each tax jurisdiction. The various tax authorities could challenge our tax positions that could impact the amount of our NOLs. The tax law provisions for the various tax jurisdiction may limit our ability to utilize the NOLs carried forward to offset taxable income in future years. If the various tax authorities were successful with respect to any such challenge, the potential tax benefit of the NOLs to us could be substantially reduced that may have a material adverse effect on our business, consolidated results of operations, and consolidated financial condition.

A decrease in the fair value of pension and other post-retirement assets could materially increase future funding requirements of the pension and other post-retirement plans.

We sponsor defined benefit pension and other post-retirement plans. The total projected benefit obligation of our defined benefit pension and other post-retirement plans exceeded the fair value of the plan assets by approximately \$137.9 million at December 31, 2020. We contributed \$10.3 million to the pension and other post-retirement plans in 2020. Among the key assumptions inherent in the actuarially calculated pension and other post-retirement plan obligations and pension and other post-retirement plan expenses are the discount rate and the expected rate of return on plan assets. If discount rates or actual rates of return on invested plan assets were to decrease, the pension and other post-retirement plan obligations could increase materially. The size of future required pension contributions could result in our dedicating a substantial portion of our cash flow from operations to making the contributions, which could materially adversely affect our business, financial condition and results of operations.

Risks Related to Legal and Regulatory Matters

The European Union’s Directive 2009/28 on the promotion of the use of energy from renewable resources (“Renewable Energy Directive” or “RED”), which will be repealed on July 1, 2021 (the “RED”), and the new Directive replacing Directive 2009/28, which has to be transposed by Member States by June 30, 2021 (the “RED II”), and similar legislation in the U.S. and elsewhere may incentivize the use of CTO as a feedstock for production of alternative fuels, which may have an adverse effect on our results of operations, financial condition, and cash flow.

In December 2008, the European Union adopted RED, which established a 20% EU-wide target for energy consumed from renewable sources relative to the EU’s gross final consumption of energy, as well as a 10% target for energy consumed from renewable sources in the transport section by 2020. In order to reach these targets, the RED established mandatory targets for each Member State (as defined in RED) and required each Member State to adopt a national renewable energy action plan setting forth measures to achieve its national targets.

RED also established sustainability criteria for biofuels, which must be satisfied in order for the consumption of a fuel to count toward a Member State’s national targets. CTO-based biofuel currently fulfills RED’s biofuel sustainability criteria. In spring 2015, the EU adopted amendments to RED, expressly listing CTO as a residue-type feedstock, the use of which in biofuel would make that biofuel eligible for double counting towards national targets of the Member States, and at least two Member States additionally have or plan fiscal incentives for the domestic marketing of CTO-based and other qualifying biofuels.

In late 2018, the EU adopted the RED II for the period 2021-2030. The RED II contains higher obligations and goals than the RED, an EU-wide binding target of a 32% share of energy from renewable sources in the gross final consumption of energy by 2030, and a share of 14% of renewable energy in the transport sector by 2030. According to the RED II, Member States shall set out national indicative trajectories for their contributions to the EU-wide target, and these trajectories shall be based on the targets set out in the RED for 2020.

As for the transport sector target, the RED II provides that Member States shall require fuel suppliers to supply a share of at least 14% of fuels from renewable sources, including a share of 3.5% of advanced biofuels. CTO based biofuels shall, according to the RED II, be counted as advanced biofuels, and Member States may still double count the contribution of such fuels. In addition to these developments in the European Union, various pieces of legislation regarding the use of alternative fuels have been introduced in the U.S.

Because the supply of CTO is inherently constrained by the volume of kraft pulp processing, any diversion of CTO for production of alternative fuels would reduce the available supply of CTO as the principal raw material of the pine chemicals industry. A reduced ability to procure an adequate supply of CTO due to competing new uses such as for biofuel production could have a material adverse effect on our results of operations, financial condition and cash flows.

We may be liable for damages based on product liability claims brought against our customers, which may have an adverse effect on our results of operations, financial condition, and cash flow.

Many of our products provide critical performance attributes to our customers’ products, which are sold to consumers who could potentially bring product liability suits in which we could be named as a defendant. For example, certain of the chemicals or substances that are used in our businesses, including alkyl phenols such as bisphenol A and nonylphenol, flammable solvents such as toluene, xylene and alcohols, and rosin, formaldehyde and resin dust, have been identified as having potentially harmful health effects. The sale of these products entails the risk of product liability claims. If a person were to bring a product liability suit against one of our customers, the customer may attempt to seek contribution from us. A person may also bring a product liability claim directly against us. A successful product liability claim or series of claims against us in excess of our insurance coverage, for which we are not otherwise indemnified, could have a material adverse effect on our industry, our reputation, or on our financial condition or results of operations. There can be no assurance that our efforts to protect ourselves from product liability claims in this regard will ultimately protect us from any such claims.

Failure to comply with the Foreign Corrupt Practices Act and other similar worldwide anti-bribery, anti-corruption, and anti-fraud laws or sanction laws may subject us to penalties, which may have an adverse effect on our results of operations, financial condition, and cash flow.

Our international operations require us to comply with a number of U.S. and international laws and regulations, including those involving anti-bribery, anti-corruption and anti-fraud. In particular, our international operations are subject to U.S. and foreign anti-corruption laws and regulations, including the regulations imposed by the Foreign Corrupt Practices Act (“FCPA”), which generally prohibits issuers and their strategic or local partners, agents or representatives, which we refer to as our intermediaries (even if those intermediaries are not themselves subject to the FCPA or other similar laws), from making improper payments to foreign officials for the purpose of obtaining or keeping business or obtaining an improper business benefit, and the United Kingdom Bribery Act 2010 (the “Bribery Act”) as well as anti-bribery and anti-corruption laws of the various jurisdictions in which we operate. Sanction laws prohibit sales to certain persons or locations and impose other restrictions on our operations.

We currently take precautions to comply with these laws. However, these precautions may not protect us against liability, particularly as a result of actions by our intermediaries through whom we have exposure under these anti-bribery, anti-corruption and anti-fraud laws, as well as sanction laws, even though we may have limited or no ability to control such intermediaries. Additionally, we have operations in certain countries where strict compliance with anti-bribery and anti-corruption laws may conflict with local customs and practices.

In order to effectively operate in certain foreign jurisdictions, circumstances may require that we establish joint ventures with local operators or use third-party agents, distributors and marketing representatives. The establishment of joint ventures with local operators and the use of third-party intermediaries may expose us to the risk of violating, or being accused of violating, the foregoing or other anti-bribery, anti-corruption laws or anti-fraud. Such violations could be punishable by criminal fines, imprisonment, civil penalties, disgorgement of profits, injunctions and exclusion from government contracts, as well as other remedial measures. Investigations of alleged violations can be very expensive, disruptive and damaging to our reputation and could negatively impact our stock price. Failure by us or our intermediaries to comply with the foregoing or other anti-bribery, anti-corruption and anti-fraud laws, as well as sanction laws, could adversely impact our results of operations, financial position, and cash flows, damage our reputation and negatively impact our stock price.

As a global business, we are exposed to local business risks in different countries, which may have an adverse effect on our results of operations, financial condition, and cash flow.

We procure raw materials from foreign countries and have significant operations in foreign countries, including manufacturing facilities, research and development facilities, offices, sales personnel and customer support operations. Currently, we operate, or others operate on our behalf, manufacturing facilities in Finland, France, Germany, Japan and Sweden, in addition to our operations in the U.S. Furthermore, we are a 50/50 joint venture partner with FPCC to own and operate a 30 kiloton HSBC plant at FPCC’s petrochemical site in Mailiao, Taiwan.

Our foreign operations are subject to risks inherent in doing business in foreign countries, including, but not necessarily limited to:

- new and different legal and regulatory requirements in local jurisdictions;
- data privacy regulations;
- export duties or import quotas;
- domestic and foreign customs and tariffs or other trade barriers;
- potential staffing difficulties and labor disputes;
- risk of non-compliance with the U.S. FCPA, the U.K. Bribery Act, or similar anti-bribery legislation in other countries by agents or other third-party representatives;
- managing and obtaining support and distribution for local operations;
- increased costs of transportation or shipping;
- credit risk and financial conditions of local customers and distributors;
- potential difficulties in protecting intellectual property;
- risk of nationalization of private enterprises by foreign governments;
- potential imposition of restrictions on investments;
- varying permitting and approval requirements;

- potentially adverse tax consequences, including imposition or increase of withholding and other taxes on remittances and other payments by subsidiaries;
- foreign currency exchange restrictions and fluctuations;
- local political and social conditions, including the possibility of hyperinflationary conditions and political instability in certain countries;
- the outbreak of global or regional health epidemics or pandemics; and
- civil unrest, including labor unrest, in response to local political conditions.

We may not be successful in developing and implementing policies and strategies to address the foregoing risks in a timely and effective manner at each location where we do business or from where we procure raw materials. Consequently, the occurrence of one or more of the foregoing risks could have a material adverse effect on our international operations or upon our financial condition, results of operations, and cash flows.

Compliance with extensive environmental, health, and safety laws and regulations (including changes to such laws and regulations) could require material expenditures, changes in our operations or site remediation.

The manufacture and sale of our products can present potentially significant health and safety concerns and are also under increased public and governmental scrutiny. Our products are also used in a variety of applications that have specific regulatory requirements, such as those relating to products that have contact with food or are used for medical applications.

We use large quantities of hazardous substances and generate hazardous wastes in our manufacturing operations. Consequently, our operations are subject to extensive environmental, health and safety laws and regulations at the international, national, state and local level in multiple jurisdictions. These laws and regulations govern, among other things, air emissions, wastewater discharges, solid and hazardous waste management and disposal, occupational health and safety, including dust and noise control, site remediation programs and chemical use and management. Many of these laws and regulations have become more stringent over time, and the costs of compliance with these requirements may increase, including costs associated with any necessary capital investments. In addition, our production facilities require operating permits that are subject to renewal and, in some circumstances, revocation. The necessary permits may not be issued or continue in effect, and renewals of any issued permits may contain significant new requirements or restrictions. The nature of the chemical industry exposes us to risks of liability due to the use, production, management, storage, transportation and sale of materials that are heavily regulated or hazardous and can cause contamination or personal injury or damage if released into the environment.

Because of the nature of our operations, we could be subject to legislation and regulation affecting the emission of greenhouse gases. The U.S. Environmental Protection Agency (“EPA”) has promulgated regulations applicable to projects involving greenhouse gas emissions above a certain threshold, and the U.S. and certain states within the U.S. have enacted, or are considering, limitations on greenhouse gas emissions.

Jurisdictions outside the U.S. are also addressing greenhouse gases by legislation or regulation. In addition, efforts have been made and continue to be made at the international level toward the adoption of international treaties or protocols that would address global greenhouse gas emissions. These requirements to limit greenhouse gas emissions may require us to incur capital investments to upgrade our operations to comply with any future greenhouse gas emissions controls. While the impact of any such legislation, regulation, treaties or protocols is currently unknown, any such legislation, regulation, treaties or protocols, if enacted, may have an adverse effect on our operations or financial condition.

In addition to the above, various petrochemical products, including plastics, have faced increased public scrutiny due to negative coverage of plastic waste in the environment, which has resulted in local, state, federal and foreign governments proposing and in some cases approving, restrictions on the manufacture, consumption and disposal of certain petrochemical products. Increased regulation on the use of our products or other products in our industry, whatever their scope or form, could increase our costs of production, impact overall consumption of our products or result in negative publicity.

Compliance with environmental laws and regulations generally increases the costs of transportation and storage of raw materials and finished products, as well as the costs of storage and disposal of wastes. We may incur substantial costs, including fines, damages, criminal or civil sanctions and remediation costs, or experience interruptions in our operations for violations arising under environmental laws, regulations or permit requirements.

Regulation of our employees' exposure to certain chemicals could require material expenditures or changes in our operations, which may have an adverse effect on our results of operations, financial condition, and cash flow.

The Occupational Safety and Health Act ("OSHA") in the U.S. and the Registration, Evaluation and Authorization of Chemicals ("REACH"), directive in Europe, prescribe limitations restricting exposure to a number of chemicals used in our operations, including butadiene, formaldehyde and nonylphenol, a raw material used in the manufacture of phenolic ink resins. Butadiene is a known carcinogen in laboratory animals at high doses and is being studied for its potential adverse health effects. Future studies on the health effects of these, and other, chemicals may result in additional regulations or new regulations that further restrict or prohibit the use of, and exposure to, such chemicals. Additional regulation of or requirements for these chemicals could require us to change our operations, and these changes could affect the quality of our products and materially increase our costs.

We may be subject to losses due to lawsuits arising out of environmental damage or personal injuries associated with chemical manufacturing, which may have an adverse effect on our results of operations, financial condition, and cash flow.

We face the risk that individuals could, in the future, seek damages for personal injury due to exposure to chemicals at our facilities or to chemicals otherwise owned or controlled by us. We may be subject to future claims with respect to workplace exposure, workers' compensation, and other matters. Additionally, under certain of the lease and operating agreements for our sites, we are required to indemnify the third party in certain circumstances, including in certain circumstances for loss and damages resulting from their negligence in performing their obligations.

Some environmental laws could impose on us the entire cost of clean-up of contamination present at a facility even though we did not cause the contamination, and we may be required to undertake and pay for remediation of on-site contamination resulting from past operations at our current sites.

In general, there is always the possibility that a third-party plaintiff or claimant, or governmental or regulatory authority, could seek to include us in an action or claim for damages, clean-up, or remediation pertaining to events or circumstances occurring or existing at one or more of our sites prior to the time of our ownership or occupation of the applicable site. In the event that any of these actions or claims were asserted against us, our results of operations could be adversely affected.

We are subject to customs, international trade, export control, data privacy, antitrust, zoning and occupancy and labor and employment laws that could require us to modify our current business practices and incur increased costs.

We are subject to numerous regulations, including customs and international trade laws, export control, data privacy, antitrust laws and zoning and occupancy laws that regulate manufacturers generally and/or govern the importation, promotion and sale of our products, the operation of factories and warehouse facilities and our relationship with our customers, suppliers and competitors. Particularly, data privacy and protection laws in the U.S., Europe, including but not limited to the General Data Protection Regulation, and elsewhere are evolving and may be interpreted and applied inconsistently from jurisdiction to jurisdiction. In addition, we face risk associated with trade protection laws, policies and measures and other regulatory requirements affecting trade and investment, including loss or modification of exemptions for taxes and tariffs, imposition of new tariffs and duties and import and export licensing requirements, including the ongoing tariffs imposed by the U.S. on imports from China and Chinese tariffs on imports from the U.S.

If these laws or regulations were to change or were violated by our management, employees, suppliers, buying agents or trading companies, the costs of certain goods could increase, or we could experience delays in shipments of our goods, be subject to fines or penalties, or suffer reputational harm, which could reduce demand for our products and hurt our business and negatively impact our results of operations. In addition, changes in federal and state minimum wage laws and other laws relating to employee benefits could cause us to incur additional wage and benefits costs, which could negatively impact our profitability.

Legal requirements are frequently changed and subject to interpretation, and we are unable to predict the ultimate cost of compliance with these requirements or their effects on our operations. We may be required to make significant expenditures or modify our business practices to comply with existing or future laws and regulations, which may increase our costs and materially limit our ability to operate our business.

Risks Related to Stock Ownership

Delaware law and certain provisions of our organizational documents may make a takeover of our company more difficult.

Provisions of our charter and bylaws may have the effect of delaying, deferring or preventing a change in control of our company. A change of control could be proposed in the form of a tender offer or takeover proposal that might result in a premium over the market price for our common stock. In addition, these provisions could make it more difficult to bring about a change in the composition of our board of directors, which could result in the entrenchment of current management. For example, our charter and bylaws:

- establish a classified board of directors so that not all members of our board of directors are elected at one time;
- require that the number of directors be determined, and provide that any vacancy or new board seat may be filled only by the board;
- do not permit stockholders to act by written consent;
- do not permit stockholders to call a special meeting;
- permit the bylaws to be amended by a majority of the board without shareholder approval, and require that a bylaw amendment proposed by stockholders be approved by two-thirds of all outstanding shares;
- establish advance notice requirements for nominations for elections to our board of directors or for proposing matters that can be acted upon by stockholders at stockholder meetings; and
- authorize the issuance of undesignated preferred stock, or “blank check” preferred stock, by our board of directors without shareholder approval.

Our Kraton Corporation Executive Severance Program and the equity arrangements with our executive officers also contain change in control provisions. Under the terms of these arrangements, the executive officers are entitled to receive significant cash payments, immediate vesting of options, restricted shares and notional shares, and continued medical benefits in the event their employment is terminated under certain circumstances within twenty four months following a change in control, and with respect to certain equity awards, within two years following a change in control.

Any amounts accrued under the Kraton Polymers LLC Executive Deferred Compensation Plan are immediately payable upon a change of control. We disclose in proxy statements filed with the SEC potential payments to our named executive officers in connection with a change of control. Further, the terms of each of the indentures governing our Senior Notes require us, upon certain change of control transactions, to repurchase our outstanding Senior Notes at a price equal to 101.0% of their principal amount, plus any accrued and unpaid interest. Certain change of control transactions would also constitute an event of default under our Term Loan Facility and ABL Facility.

These arrangements and provisions of our organizational documents and Delaware law may have the effect of delaying, deferring or preventing changes of control or changes in management of our company, even if such transactions or changes would have significant benefits for our stockholders. As a result, these provisions could limit the price some investors might be willing to pay in the future for shares of our common stock.

We do not currently pay dividends and may not pay any dividends for the foreseeable future.

We do not currently pay dividends, and we may not pay dividends to our stockholders for the foreseeable future. The terms of the Term Loan Facility, the ABL Facility, and our Senior Notes limit our ability to pay cash dividends, and we may be subject to other restrictions on our ability to pay dividends from time to time. In addition, because we are a holding company, our ability to pay dividends depends on our receipt of cash dividends and distributions from our subsidiaries. Accordingly, investors must be prepared to rely on sales of their common stock after price appreciation to earn an investment return, which may never occur. Investors seeking cash dividends should not purchase our common stock. Any determination to pay dividends in the future will be made at the discretion of our board of directors and will depend upon our results of operations, financial condition, contractual restrictions, restrictions imposed by applicable law or the SEC and other factors that our board deems relevant.

We are a holding company with nominal net worth and will depend on dividends and distributions from our subsidiaries to pay any dividends.

Kraton Corporation is a holding company with nominal net worth. We do not have any assets or conduct any business operations other than our investments in our subsidiaries, including Kraton Polymers LLC. As a result, our ability to pay dividends, if any, will be dependent upon cash dividends and distributions or other transfers from our subsidiaries. Payments to us by our subsidiaries will be contingent upon their respective earnings and subject to any limitations on the ability of such

entities to make payments or other distributions to us. In addition, our subsidiaries are separate and distinct legal entities and have no obligation to make any funds available to us.

Investor sentiment towards climate change and sustainability could adversely affect our business and our stock price.

Investor sentiment towards climate change and sustainability could adversely affect our business and our stock price. Members of the investment community are increasing their focus on sustainability practices, including practices related to GHGs and climate change. As a result, we may face increasing pressure regarding our sustainability disclosures and practices. Additionally, members of the investment community may screen companies such as ours for sustainability performance before investing in our stock. If we are unable to meet the sustainability standards set by these investors, we may lose investors, our stock price may be negatively impacted, and our reputation may be negatively affected.

Risks Related to Technology and Intellectual Property

If we are not able to continue the technological innovation and successful commercial introduction of new products, our customers may turn to other producers to meet their requirements.

Our industry and the markets into which we sell our products experience periodic technological change and ongoing product improvements. In addition, our customers may introduce new generations of their own products or require new technological and increased performance specifications that would require us to develop customized products. Innovation or other changes in our customers' product performance requirements may also adversely affect the demand for our products. Our future growth and profitability will depend on our ability to gauge the direction of the commercial and technological progress in all key markets, and upon our ability to successfully develop, manufacture and sell products in such changing markets. In order to maintain our profit margins and our competitive position, we must continue to identify, develop and market innovative products on a timely basis to replace existing products. We may not be successful in developing new products and technology that successfully compete with newly introduced products and materials, and our customers may not accept, or may have lower demand for, any of our new products. Further, an important part of our strategy is the creation of demand for innovations that we develop and introduce to the markets. If we fail to keep pace with evolving technological innovations, fail to modify our products in response to our customers' needs or fail to develop innovations that generate additional demand, then our business, financial condition and results of operations could be adversely affected as a result of reduced sales of our products or diminished return on investment in innovations.

Our business relies on intellectual property and other proprietary information, and our failure to protect our rights could harm our competitive advantages with respect to the manufacturing of some of our products, which may have an adverse effect on our results of operations, financial condition, and cash flow.

Our success depends, to a significant degree, upon our ability to protect and preserve our intellectual property and other proprietary information relating to our business. However, we may be unable to prevent third parties from using our intellectual property and other proprietary information without our authorization or from independently developing intellectual property and other proprietary information that is similar to ours, particularly in those countries where the laws do not protect our proprietary rights to the same degree as in the U.S. The use of our intellectual property and other proprietary information by others could reduce or eliminate any competitive advantage we have developed, potentially causing us to lose sales or otherwise harming our business. If it becomes necessary for us to litigate to protect these rights, any proceedings could be burdensome and costly, and we may not prevail.

Our patent applications and issued patents may not provide us with any competitive advantage and may be challenged by third parties. Our competitors may also attempt to design around our patents or copy or otherwise obtain and use our intellectual property and other proprietary information. Moreover, our competitors may already hold or have applied for patents in the U.S. or abroad that, if enforced or issued, could possibly prevail over our patent rights or otherwise limit our ability to manufacture or sell one or more of our products in the U.S. or abroad. With respect to our pending patent applications, we may not be successful in securing patents for these claims. Our failure to secure these patents may limit our ability to protect inventions that these applications were intended to cover. In addition, the expiration of a patent can result in increased competition with consequent erosion of profit margins.

Our confidentiality agreements could be breached or may not provide meaningful protection for our trade secrets or proprietary manufacturing expertise. Adequate remedies may not be available in the event of an unauthorized use or disclosure of our trade secrets and manufacturing expertise. Violations by others of our confidentiality agreements and the loss of employees who have specialized knowledge and expertise could harm our competitive position and cause our sales and operating results to decline as a result of increased competition. In addition, others may obtain knowledge of our trade secrets through independent development or other access by legal means.

The applicable governmental authorities may not approve our pending service mark and trademark applications. A failure to obtain trademark registrations in the U.S. and in other countries could limit our ability to obtain and retain our

trademarks and impede our marketing efforts in those jurisdictions. Moreover, third parties may seek to oppose our applications or otherwise challenge the resulting registrations. In the event that our trademarks are successfully challenged, we could be forced to rebrand our products, which could result in loss of brand recognition and could require us to devote resources to advertising and marketing new brands.

The failure of our patents, trademarks, or confidentiality agreements to protect our intellectual property and other proprietary information, including our processes, apparatuses, technology, trade secrets, trade names and proprietary manufacturing expertise, methods and compounds, could have a material adverse effect on our competitive advantages over other producers.

Our products may infringe on the intellectual property rights of others, which may cause us to incur unexpected costs or prevent us from selling our products.

Many of our competitors have a substantial amount of intellectual property. We cannot guarantee that our processes and products do not and will not infringe issued patents (whether present or future) or other intellectual property rights belonging to others, including, without limitation, situations in which our products, processes or technologies may be covered by patent applications filed by other parties in the U.S. or abroad.

From time to time, we oppose patent applications that we consider overbroad or otherwise invalid in order to maintain the necessary freedom to operate fully in our various business lines without the risk of being sued for patent infringement. If, however, patents are subsequently issued on any such applications by other parties, or if patents belonging to others already exist that cover our products, processes or technologies, we could be liable for infringement or have to take other remedial or curative actions to continue our manufacturing and sales activities with respect to one or more products.

We may also be subject to legal proceedings and claims in the ordinary course of our business, including claims of alleged infringement of the patents, trademarks and other intellectual property rights of third parties by us or our licensees in connection with their use of our products. Intellectual property litigation is expensive and time-consuming, regardless of the merits of any claim, and could divert our management's attention from operating our business.

If we were to discover that our processes, technologies or products infringe the valid intellectual property rights of others, we might need to obtain licenses from these parties or substantially re-engineer our products in order to avoid infringement. We may not be able to obtain the necessary licenses on acceptable terms, or at all, or be able to re-engineer our products successfully. Moreover, if we are sued for infringement and lose, we could be required to pay substantial damages and/or be enjoined from using or selling the infringing products or technology. If we incur significant costs to litigate our intellectual property rights or to obtain licenses, or if our inability to obtain required licenses for our processes, technologies or products prevents us from selling our products, it could have a material adverse effect on our business and results of operations.

Increased information systems security threats and more sophisticated and targeted computer crime could pose a risk to our systems, networks, products, and services.

We depend on integrated information systems to conduct our business. Increased global information systems security threats and more sophisticated, targeted computer crime pose a risk to the security of our systems and networks and the confidentiality, availability, and integrity of our data, operations, and communications. While we attempt to mitigate these risks by employing a number of measures, including security measures, upgrading our equipment or software, employee training, comprehensive monitoring of our networks and systems, and maintenance of backup and protective systems, if these measures prove inadequate, we could be adversely affected by, among other things, loss or damage of intellectual property, proprietary and confidential information, and communications or customer data, having our business operations interrupted, our supply chain interrupted, and increased costs to prevent, respond to, or mitigate these cyber security threats. Any significant disruption or slowdown of our systems could cause customers to cancel orders, resulting in us being unable to manufacture or deliver products (or create delays), harm our reputation, or cause standard business processes to become inefficient or ineffective, which could adversely affect our results of operations, financial position, or cash flows.

Item 1B. Unresolved Staff Comments.

None.

Item 2. Properties.

Our principal executive offices are located at 15710 John F. Kennedy Boulevard, Suite 300, Houston, Texas 77032.

We believe that our properties and equipment are generally in good operating condition and are adequate for our present needs. Production capacity at our sites can vary greatly depending upon feedstock, product mix, and operating conditions. Approximate annual capacity amounts may fluctuate as a result of capital expenditures or lean process initiatives to increase capacity, a shutdown of certain equipment to reduce capacity or permanent changes in mix, which could increase or decrease capacity. The following table sets forth our approximate square footage of each of our manufacturing facilities.

Polymer Segment

Location	Principal Products	Approximate Square Footage	Owned/Leased
Belpre, Ohio	Performance Products, Specialty Polymers, Cariflex	3,600,000	Owned (1)
Wesseling, Germany	Performance Products	354,000	Owned (2)
Berre, France	Performance Products, Specialty Polymers	392,000	Owned (2)
Kashima, Japan	Performance Products	395,000	Owned (3)
Mailiao, Taiwan	Specialty Polymers	1,800,000	Owned (4)

Chemical Segment

Location	Principal Products (Upgrades)	Approximate Square Footage	Owned/Leased
Panama City, Florida	Rosin Esters, Dispersions	217,626	Owned
Pensacola, Florida	Terpene Resins	64,109	Owned
Savannah, Georgia	Rosin Esters	186,125	Owned (5)
Dover, Ohio	Dimer Acids, Polyamides	166,824	Owned
Oulu, Finland	Rosin Esters and Soaps	167,681	Owned (6)
Niort, France	AMS, Terpene Resins	187,405	Owned
Sandarne, Sweden	Rosin Esters, Dispersions	378,892	Owned
Gersthofen, Germany	Disprorosins	39,116	Owned

- (1) A portion of the HSBC capacity at the Belpre facility is owned by Infineum USA, a joint venture between Shell Chemicals and ExxonMobil that makes products for the lubricant additives business.
- (2) Our Wesseling and Berre manufacturing facilities are located on LyondellBasell sites. We lease the land, but own the manufacturing facilities and production equipment. We have operating agreements with LyondellBasell for various site services, utilities, materials, and facilities.
- (3) The Kashima manufacturing facility is owned and operated by a 50%-50% joint venture between us and JSR, named Kraton JSR Elastomers K.K. (“KJE”). We are generally entitled to 50% of this production pursuant to our joint venture agreement. JSR markets its portion of the production under its own trademarks, and we market our portion of the production under the Kraton® brand name, although this amount may vary from time to time.
- (4) The Mailiao facility is our 50%-50% KFPC joint venture with FPCC, and the joint venture leases the land, but owns the manufacturing facility and production equipment.
- (5) We own our black liquor soap acidulation manufacturing facility located in Savannah, Georgia. However, this manufacturing facility is located on land that we lease, and the lease expires on February 28, 2057.
- (6) We own our manufacturing facility located in Oulu, Finland. However, this facility is located on land that we lease, and the lease expires on August 31, 2044, with an option to extend the term until August 31, 2095.

Item 3. Legal Proceedings.

For information regarding legal proceedings, including environmental matters, see Note 12 *Commitments and Contingencies* (subsections (b) and (c) of which are incorporated herein by reference) to the consolidated financial statements for further discussion.

Item 4. Mine Safety Disclosures.

Not applicable.

PART II

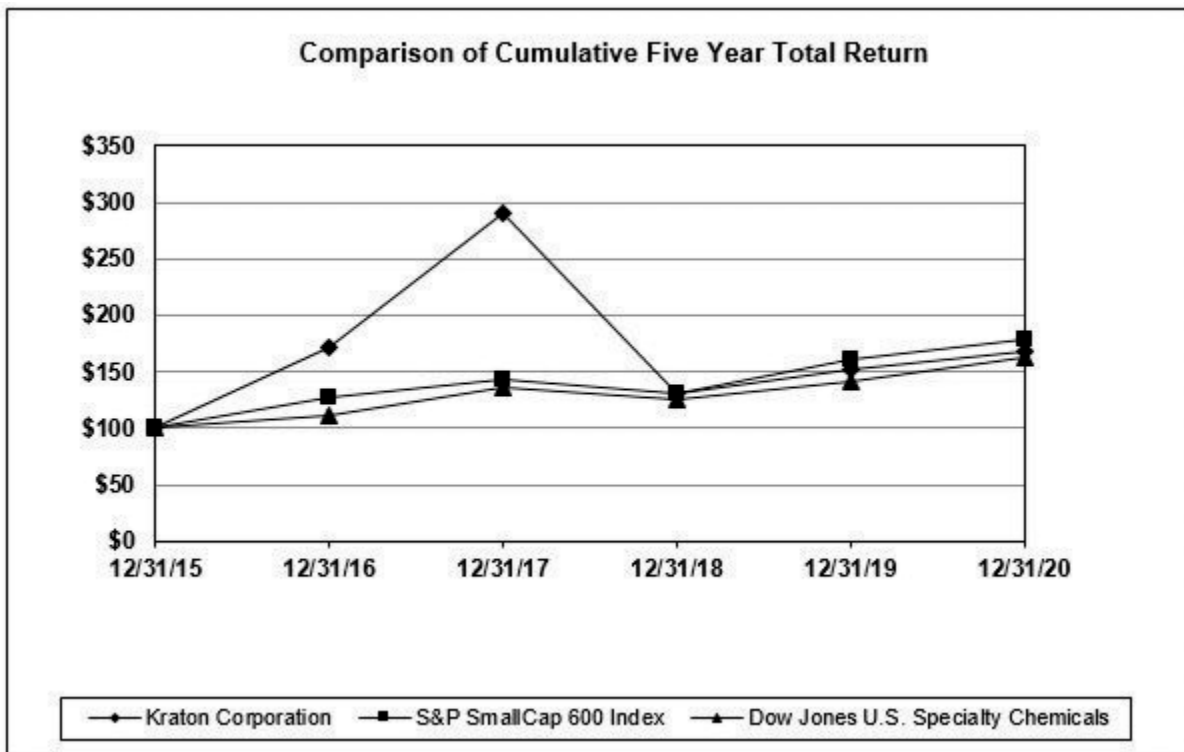
Item 5. Market for Registrant’s Common Equity, Related Stockholder Matters, and Issuer Purchases of Equity Securities

Our common stock is listed on the NYSE under the symbol “KRA.”

As of February 22, 2021, we had approximately 54 shareholders of record of our common stock.

Stock Performance Graph

The following graph reflects the comparative changes in the value from December 31, 2015 through December 31, 2020, assuming an initial investment of \$100 and the reinvestment of dividends, if any, in (1) our common stock, (2) the S&P SmallCap 600 Index, and (3) the Dow Jones U.S. Specialty Chemicals Index. The information under this caption is not deemed to be “soliciting material” or to be “filed” with the SEC or subject to Regulation 14A or 14C under the Securities Exchange Act of 1934, as amended (the “Exchange Act”), or to the liabilities of Section 18 of the Exchange Act, and will not be deemed to be incorporated by reference into any filing under the Securities Act of 1933 or the Exchange Act, except to the extent we specifically incorporate it by reference into such a filing. Historical performance should not be considered indicative of future stockholder returns.



Total Return to Shareholders
(Includes reinvestment of dividends)

<i>Company Name / Index</i>	Annual Return Percentage, Years Ending				
	12/31/2016	12/31/2017	12/31/2018	12/31/2019	12/31/2020
Kraton Corporation	71.46 %	69.14 %	(54.66)%	15.93 %	9.76 %
S&P SmallCap 600 Index	26.56 %	13.23 %	(8.48)%	22.78 %	11.29 %
Dow Jones U.S. Specialty Chemicals	10.54 %	22.39 %	(6.84)%	12.25 %	15.20 %

<i>Company Name / Index</i>	Cumulative Value of \$100 Investment, through December 31, 2020					
	Base Period 12/31/15	12/31/2016	12/31/2017	12/31/2018	12/31/2019	12/31/2020
Kraton Corporation	\$ 100.00	\$ 171.46	\$ 290.01	\$ 131.49	\$ 152.44	\$ 167.31
S&P SmallCap 600 Index	\$ 100.00	\$ 126.56	\$ 143.30	\$ 131.15	\$ 161.03	\$ 179.20
Dow Jones U.S. Specialty Chemicals	\$ 100.00	\$ 110.54	\$ 135.29	\$ 126.03	\$ 141.47	\$ 162.98

Dividends

We have not previously declared or paid any dividends or distributions on our common stock and have instead deployed earnings to fund the development of our business. Any future determination to pay dividends will be at the discretion of our board of directors and will depend on our financial condition, results of operations, capital expenditure requirements, restrictions contained in current and future financing instruments, and other factors that our board of directors deems relevant. Because we are a holding company, our ability to pay dividends depends on our receipt of cash dividends and distributions from our subsidiaries. The terms of certain of our current debt instruments restrict our ability and the ability of our subsidiaries to pay dividends, as may the terms of any of our future debt or preferred securities.

Share Repurchase Program. In February 2019, we announced a repurchase program for up to \$50.0 million of the Company's common stock by March 2021. Repurchases may be made at management's discretion from time to time through privately-negotiated transactions, in the open market, or through broker-negotiated purchases in compliance with applicable securities law, including through a 10b5-1 Plan. The repurchase program may be suspended for periods or discontinued at any time, and the amount and timing of the repurchases are subject to a number of factors, including Kraton's stock price. During the three months ended December 31, 2020, we did not repurchase any of our common stock under this program. We are not obligated to acquire any specific number of shares of our common stock.

The Company repurchases treasury stock that is withheld to satisfy the tax obligation of holders of restricted stock awards when they vest. Our equity incentive plans provide that the value of shares delivered to us to pay the withholding tax obligations is calculated based on the average of the high and low sales price per share of our common stock on the day of vest.

	Issuer Purchases of Equity Securities			
	(a) Total Number of Shares (or Units) Purchased ⁽¹⁾	(b) Average Price Paid Per Share (or Unit)	(c) Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs ⁽²⁾	(d) Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans of Programs ⁽²⁾
October 1, 2020 through October 31, 2020	186	\$ 17.80	—	\$ 40,000,036
November 1, 2020 through November 30, 2020	—	—	—	40,000,036
December 1, 2020 through December 31, 2020	—	—	—	40,000,036
Total	186	\$ 17.80	—	\$ 40,000,036

(1) The total number of shares disclosed in this column includes 186 shares of our common stock delivered to us in satisfaction of the tax withholding obligation of holders of restricted stock awards which vested.

(2) This column contains repurchases under the Share Repurchase Program.

Item 6. Selected Financial Data.

The selected financial data below should be read in conjunction with “Management’s Discussion and Analysis of Financial Condition and Results of Operations” included under Item 7 of this Form 10-K as well as the consolidated financial statements and the related notes.

	Years Ended December 31,				
	2020 ⁽²⁾	2019	2018	2017	2016 ⁽³⁾
(In thousands, except per share data)					
Consolidated statements of operations data:					
Revenue	\$ 1,563,150	\$ 1,804,436	\$ 2,011,675	\$ 1,960,362	\$ 1,744,104
Cost of goods sold	1,165,279	1,390,007	1,431,069	1,415,659	1,262,542
Gross profit	397,871	414,429	580,606	544,703	481,562
Operating expenses:					
Research and development	40,743	41,073	41,296	40,283	39,129
Selling, general, and administrative	161,944	149,800	153,897	161,260	177,356
Depreciation and amortization	126,022	136,171	141,410	137,162	125,658
Impairment of goodwill	400,000	—	—	—	—
Gain on insurance proceeds	—	(32,850)	(8,900)	—	—
Loss on disposal of fixed assets	750	773	2,169	514	665
Operating income	(331,588)	119,462	250,734	205,484	138,754
Other income (expense)	995	3,339	(3,472)	(3,360)	(2,503)
Disposition and exit of business activities	175,189	—	—	—	28,416
Loss on extinguishment of debt	(40,843)	(3,521)	(79,866)	(35,389)	(13,423)
Earnings of unconsolidated joint venture ⁽¹⁾	457	506	471	486	394
Interest expense, net	(57,930)	(75,782)	(93,772)	(132,459)	(138,952)
Income (loss) before income taxes	(253,720)	44,004	74,095	34,762	12,686
Income tax benefit (expense)	32,034	11,813	(3,574)	57,884	91,954
Consolidated net income (loss)	(221,686)	55,817	70,521	92,646	104,640
Net (income) loss attributable to noncontrolling interest	(3,916)	(4,512)	(3,506)	4,903	2,668
Net income (loss) attributable to Kraton	\$ (225,602)	\$ 51,305	\$ 67,015	\$ 97,549	\$ 107,308
Earnings (loss) per common share:					
Basic	\$ (7.08)	\$ 1.61	\$ 2.10	\$ 3.12	\$ 3.48
Diluted	\$ (7.08)	\$ 1.60	\$ 2.08	\$ 3.07	\$ 3.43
Weighted average common shares outstanding:					
Basic	31,746	31,581	31,416	30,654	30,180
Diluted	31,746	31,881	31,789	31,140	30,621

- (1) Represents our 50% joint venture interest in KJE, which is accounted for using the equity method of accounting.
- (2) The results of our Cariflex business are included within our consolidated statements of operations through March 6, 2020, the date of our sale of the Cariflex business. Upon closing, we entered into a multi-year IRSA for a period of five years, with an optional extension for an additional five years. The results of the IRSA are included within our consolidated statements of operations thereafter.
- (3) On January 6, 2016, we completed the acquisition of Arizona Chemical. The results of this acquisition are included within our consolidated statements of operations thereafter.

December 31,

	2020	2019	2018	2017	2016
(In thousands)					
Consolidated balance sheets data:					
Cash and cash equivalents	\$ 85,901	\$ 35,033	\$ 85,891	\$ 89,052	\$ 121,749
Total assets	\$ 2,460,957	\$ 2,832,385	\$ 2,894,704	\$ 2,932,527	\$ 2,906,645
Total debt	\$ 937,863	\$ 1,364,625	\$ 1,532,619	\$ 1,617,528	\$ 1,739,525

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, as well as estimated current replacement cost (“ECRC”) of our inventory and cost of goods sold 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 U.S. generally accepted accounting principles (“U.S. GAAP”).

	Years Ended December 31,		
	2020	2019	2018
	(In thousands, except per share data)		
EBITDA ⁽¹⁾⁽⁴⁾	\$ (69,768)	\$ 255,957	\$ 309,277
Adjusted EBITDA ⁽²⁾⁽³⁾⁽⁴⁾	\$ 262,097	\$ 320,592	\$ 378,043
Adjusted Diluted Earnings Per Share ⁽²⁾⁽⁴⁾	\$ 1.29	\$ 2.94	\$ 3.16

- (1) 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, other income (expense), 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.
- (2) 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 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 U.S. GAAP carrying value creates the spread between U.S. 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 U.S. 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 U.S. GAAP convention and ECRC.
- (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 U.S. GAAP; and
 - Adjusted EBITDA may, and often will, vary significantly from EBITDA calculations under the terms of our debt agreements and should not be used for assessing compliance or non-compliance with financial covenants under our debt agreements.
- (4) Included in EBITDA, Adjusted EBITDA, and Adjusted Diluted Earnings Per Share is \$32.9 million and \$8.9 million, which was recognized as a gain on insurance proceeds, reimbursing us for the lost margin, direct costs, and capital expenditures known to date in the Condensed Consolidated Statement of Operations for the years ended December 31, 2019 and 2018, respectively. Also included are IR sales to Daelim under the IRSA. Sales under the IRSA are transacted at cost. The IRSA sales include amortization of non-cash deferred income of \$18.5 million for the year ended December 31, 2020, which represents revenue deferred until the products are sold under the IRSA.

Because of these and other limitations, EBITDA and Adjusted EBITDA should not be considered as measures 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 U.S. GAAP results and using EBITDA, Adjusted EBITDA, and Adjusted Diluted Earnings Per Share only as supplemental measures. See our financial statements included under Item 8 of this Form 10-K.

We reconcile each of consolidated net income (loss) and reporting segment operating income to EBITDA, and then to Adjusted EBITDA as follows:

	Year Ended December 31, 2020			Year Ended December 31, 2019			Year Ended December 31, 2018		
	Polymer	Chemical	Total	Polymer	Chemical	Total	Polymer	Chemical	Total
	(In thousands)								
Net income (loss) attributable to Kraton			\$ (225,602)			\$ 51,305			\$ 67,015
Net income attributable to noncontrolling interest			3,916			4,512			3,506
Consolidated net income (loss)			(221,686)			55,817			70,521
Add (deduct):									
Income tax (benefit) expense			(32,034)			(11,813)			3,574
Interest expense, net			57,930			75,782			93,772
Earnings of unconsolidated joint venture			(457)			(506)			(471)
Loss on extinguishment of debt			40,843			3,521			79,866
Other (income) expense			(995)			(3,339)			3,472
Disposition and exit of business activities			(175,189)			—			—
Operating income (loss)	\$ 56,802	\$ (388,390)	(331,588)	\$ 57,343	\$ 62,119	119,462	\$ 159,162	\$ 91,572	250,734
Add (deduct):									
Depreciation and amortization	52,910	73,112	126,022	59,151	77,020	136,171	71,006	70,404	141,410
Disposition and exit of business activities	175,189	—	175,189	—	—	—	—	—	—
Other income (expense)	(87)	1,082	995	(1,923)	5,262	3,339	(4,311)	839	(3,472)
Loss on extinguishment of debt	(40,843)	—	(40,843)	(3,521)	—	(3,521)	(79,866)	—	(79,866)
Earnings of unconsolidated joint venture	457	—	457	506	—	506	471	—	471
EBITDA (non-GAAP) (a)	244,428	(314,196)	(69,768)	111,556	144,401	255,957	146,462	162,815	309,277
Add (deduct):									
Transaction, acquisition related costs, restructuring, and other costs (b)	13,656	1,392	15,048	10,475	946	11,421	5,517	(607)	4,910
Disposition and exit of business activities	(175,189)	—	(175,189)	—	—	—	—	—	—
(Gain) loss on disposal of fixed assets	—	(1,316)	(1,316)	535	—	535	—	—	—
Loss on extinguishment of debt	40,843	—	40,843	3,521	—	3,521	79,866	—	79,866
Impairment of goodwill	—	400,000	400,000	—	—	—	—	—	—
Hurricane related costs (c)	—	—	—	—	15,025	15,025	—	13,651	13,651
Hurricane reimbursements (d)	—	—	—	—	(26,561)	(26,561)	—	—	—
KFPC startup costs (e)	—	—	—	3,019	—	3,019	897	—	897
Sale of emissions credits (f)	—	—	—	—	(4,601)	(4,601)	—	—	—
Non-cash compensation expense	11,361	—	11,361	9,493	—	9,493	8,102	—	8,102
Spread between FIFO and ECRC	32,384	8,734	41,118	49,565	3,218	52,783	(26,042)	(12,618)	(38,660)
Adjusted EBITDA (non-GAAP)	\$ 167,483	\$ 94,614	\$ 262,097	\$ 188,164	\$ 132,428	\$ 320,592	\$ 214,802	\$ 163,241	\$ 378,043

(a) Included in EBITDA is a \$32.9 million gain on insurance, fully offsetting the lost margin in the first quarter of 2019, and reimbursement for a portion of the direct costs we have incurred to date related to Hurricane Michael.

Also included in EBITDA are IR sales to Daelim under the IRSA. Sales under the IRSA are transacted at cost. Included in Adjusted EBITDA is the amortization of non-cash deferred income of \$18.5 million for the year ended December 31, 2020, which represents revenue deferred until the products are sold under the IRSA.

- (b) Charges related to the evaluation of acquisition and disposition transactions, severance expenses, and other restructuring related charges, which are recorded primarily in selling, general, and administrative expenses.
- (c) Incremental costs related to Hurricane Michael and Hurricane Dorian, which are recorded in cost of goods sold.
- (d) Reimbursement of incremental costs related to Hurricane Michael, which is recorded in gain on insurance proceeds.
- (e) Startup costs related to the joint venture company, KFPC, which are recorded in cost of goods sold for 2019 and selling, general, and administrative expenses for 2018.
- (f) We recorded a gain of \$4.6 million in other income (expense) related to the sale of emissions credits accumulated by our Swedish Chemical legal entity.

We reconcile U.S. GAAP Diluted Earnings Per Share to Adjusted Diluted Earnings Per Share as follows:

	Years Ended December 31,		
	2020	2019	2018
Diluted Earnings Per Share	\$ (7.08)	\$ 1.60	\$ 2.08
Transaction, acquisition related costs, restructuring, and other costs (a)	0.36	0.27	0.13
Disposition and exit of business activities	(4.77)	—	—
Loss on disposal of fixed assets	(0.03)	0.01	—
Loss on extinguishment of debt	0.99	0.08	1.91
Impairment of goodwill	12.39	—	—
Tax restructuring	(1.56)	—	—
Hurricane related costs (b)	—	0.55	0.32
Hurricane reimbursements (c)	—	(0.83)	—
KFPC startup costs (d)	—	0.04	0.01
Tax reform repatriation (e)	—	—	(0.28)
Sale of emissions credits (f)	—	(0.11)	—
Spread between FIFO and ECRC	0.99	1.33	(1.01)
Adjusted Diluted Earnings Per Share (non-GAAP)	<u>\$ 1.29</u>	<u>\$ 2.94</u>	<u>\$ 3.16</u>

- (a) Charges related to the evaluation of acquisition and disposition transactions, severance expenses, and other restructuring related charges, which are recorded primarily in selling, general, and administrative expenses.
- (b) Incremental costs related to Hurricane Michael and Hurricane Dorian, which are recorded in cost of goods sold.
- (c) Reimbursement of incremental costs related to Hurricane Michael, which is recorded in gain on insurance proceeds.
- (d) Startup costs related to the joint venture company, KFPC, which are recorded in cost of goods sold for 2019 and selling, general, and administrative expenses for 2018.
- (e) Tax repatriation and deferred tax rate change relating to the 2017 U.S. Tax Cuts and Jobs Act.
- (f) We recorded a gain of \$4.6 million in other income (expense) related to the sale of emissions credits accumulated by our Swedish Chemical legal entity.

Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations

INTRODUCTION

Management’s Discussion and Analysis of Financial Condition and Results of Operations should be read in conjunction with Item 8. Financial Statements and Supplementary Data. This discussion contains forward-looking statements and involves numerous risks and uncertainties, including, but not limited to those described in Item 1A. Risk Factors and below under the caption “Factors Affecting Our Results of Operations.” Actual results may differ materially from those contained in any forward-looking statements. Our Annual Report on Form 10-K for the year ended December 31, 2019 includes a discussion and analysis of our financial condition and results of operations for the year ended December 31, 2018 in Item 7 of Part II, “Management’s Discussion and Analysis of Financial Condition and Results of Operations.”

OVERVIEW

We are a leading global sustainable specialty chemicals company that manufactures styrenic block copolymers (“SBCs”), specialty polymers, and high-value performance products primarily derived from pine wood pulping co-products. Our operations are managed through two operating segments: (i) Polymer segment and (ii) Chemical segment.

Polymer Segment

SBCs are highly-engineered synthetic elastomers, which we invented and commercialized over 50 years ago. We developed the first unhydrogenated styrenic block copolymers (“USBC”) in 1964 and the first hydrogenated styrenic block copolymers (“HSBC”) in the late 1960s. 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, paving, roofing, and footwear products.

Our polymers are typically formulated or compounded with other products to achieve improved, customer-specific performance characteristics in a variety of applications. 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.” We believe our SBC products offer many characteristics that help our customers drive towards their sustainability goals. Among others, our SBCs may offer features such as greater recyclability, increased durability that reduces the costly need for maintenance and replacement, and alternatives to less environmentally friendly materials, such as PVCs.

Our USBC paving and roofing applications provide a sustainable alternative by increasing durability, which extend road and roof life. Our products are also found in medical applications, personal care products such as disposable diapers, oil additives, gels, and various other consumer goods. 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 HSBC offerings are often the more sustainable choice when compared to alternatives. Among other features, our HSBCs can offer improved recyclability of polyethylene-terephthalate and polypropylene streams, and function as replacements for less sustainable alternatives such as PVC, mainly in medical applications.

Prior to the sale of our Cariflex™ business, we produced 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. Cariflex is included in the results of operations through March 6, 2020.

On March 6, 2020, we completed the sale of our Cariflex business to Daelim Industrial Co, Ltd. (“Daelim”). As part of the sale, we entered into a multi-year Isoprene Rubber Supply Agreement (“IRSA”) with Daelim. In accordance with the IRSA, we will supply Isoprene Rubber to Daelim for a period of five years, with an optional extension for an additional five years. As the IRSA product sales are at cost, we deferred approximately \$180.6 million of the aggregate purchase price for our Cariflex business. The deferred income will be amortized into revenue as a non-cash transaction when the products are sold. See Note 4 *Disposition and Exit of Business Activities* for further discussion of the IRSA.

Chemical Segment

We manufacture and sell high value sustainable products primarily derived from pine wood pulping co-products. We refine and further upgrade two primary feedstocks, crude tall oil (“CTO”) and crude sulfate turpentine (“CST”), both of which are co-products of the wood pulping process, into value-added biobased specialty chemicals. 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 and TOR into derivatives such as dimer acids, polyamide resins, rosin

resins, dispersions, and disproportionated resins. We refine CST into terpene fractions, which can be further upgraded into specialty 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 three product groups: Adhesives, Performance Chemicals, and Tires. Within our product groups, our 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.

Recent Developments and Known Trends

Our business is subject to a number of known risks and uncertainties, some of which are a result of recent developments.

COVID-19 Pandemic. The continued global impact of COVID-19 has resulted in various emergency measures to combat the spread of the virus. We continue to monitor the progression of the COVID-19 pandemic on a daily basis, and we have a dedicated COVID-19 crisis management team that meets regularly. The safety and well-being of our employees, stakeholders, and the communities in which we operate remains our primary concern. While our essential manufacturing plant and research and development laboratory personnel remain on-site, many of our other employees around the world are working remotely. We are continuing to follow the orders and guidance of federal, regional, and local governmental agencies, as we maintain our own stringent protocols in an effort to mitigate the spread of the virus and protect the health of our employees, customers, and suppliers as well as the communities in which we operate.

To date, our plants have continued to operate at normal capacities, and our supply chain has remained largely intact, with adequate availability of key raw materials. Importantly, under the U.S. Department of Homeland Security guidance issued on April 17, 2020, and supplemented on August 18, 2020, as well as many related regional and local governmental orders, chemical manufacturing sites are considered essential critical infrastructure, and as such, are not currently subject to closure in the locations where we operate. While the members of the European Union issue critical infrastructure orders on a country-by-country basis, thus far, they have taken a similar approach to the U.S. Department of Homeland Security guidance. Although there has been some disruption in global logistics channels, we have not experienced significant delays in fulfillment of customer orders. We believe our geographic and end market diversification partially mitigate our exposure, as we serve many customers whose products remain vital in the current environment.

In our Chemical segment, during the second half of 2020, we saw improvement in demand trends, compared to the second quarter of 2020, within the tires, automotive, oilfield, and lubricants/fuel additives applications. Despite the improved global demand trends, COVID-19 continues to modestly affect sales volumes in the Chemical segment's market sectors noted above. As future impact of COVID-19 remains uncertain, we could see continued pressure on sales volumes in the Chemical segment during 2021, primarily in the oilfield sector.

In our Polymer segment, during the second half of 2020, we saw improved demand trends globally and most applications, compared to the first half of 2020. This recovery was aided by enhanced sales into medical applications and the global recovery of demand for consumer durables and automotive applications.

We are unable to accurately predict the impact that the pandemic will have on our business and results of operations for 2021 and beyond (including how the impact of the pandemic on our business and results of operations may change from quarter to quarter) due to numerous uncertainties, including the severity of the disease, the duration of the pandemic, additional actions that may be taken by governmental authorities, and other unintended consequences. Furthermore, the pandemic has adversely impacted, and may further adversely impact, the national and global economy, particularly in less essential end markets. There can also be no assurance that demand for our products (regardless of end market) or our supply chain will not be adversely affected by the continued impact of the COVID-19 pandemic on the global economy. Moreover, we are unable to predict actions that may be taken by our competitors, some of which may be less diversified, that could negatively impact pricing or demand for our products.

While the future remains uncertain, our geographic and end market diversification, such as medical, adhesives, and food packaging, may partially mitigate any financial exposure, as we serve many customers whose products remain vital in the current environment. We will continue to monitor the impacts of COVID-19, including possible disruption in global logistics channels. We are able to implement operational cost reductions and logistics initiatives as needed. While the impacts of COVID-19 contributed to the goodwill impairment in our Chemical segment, as discussed further in Note 14 *Industry Segments and Foreign Operations*, we do not currently anticipate any material impairments with respect to intangible assets, long-lived assets, or right of use assets, increases in allowances for credit losses from our customers, restructuring charges, other expenses,

or changes in accounting judgments to have a material impact on our financial statements. Notwithstanding the foregoing, we continue to assess the impacts, if any.

Market Conditions. Certain fundamental market conditions that affected our business and financial results prior to the COVID-19 pandemic continue to have an impact on market demand.

Our Chemical segment has been impacted by the decline in certain end uses including oilfield, tires, and industrial demand. The segment also continues to see pressure on pricing from 2019 levels in the rosin market, driven by adverse market fundamentals and excess availability of low-cost C5 hydrocarbon tackifiers. While rosin prices have stabilized, we do not expect pricing to materially change in the near term. Prices for upgraded products within our CST chain have stabilized, but remain below 2019 levels. However, market fundamentals are expected to improve in the near term.

RESULTS OF OPERATIONS

Factors Affecting Our Results of Operations

Raw Materials. We use butadiene, styrene, and isoprene in our Polymer segment and CTO and CST in our Chemical segment as our primary raw materials. 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 for natural and synthetic rubber. Average purchase prices of our raw materials decreased during 2020 compared to 2019 for the Polymer segment and increased during 2020 compared to 2019 for the Chemical.

We use the FIFO basis of accounting for inventory and cost of goods sold, and therefore gross profit. In periods of raw material price volatility, reported results under FIFO will differ from what the results would have been if cost of goods sold were based on ECRC. Specifically, in periods of rising raw material costs, reported gross profit will be higher under FIFO than under ECRC. Conversely, in periods of declining raw material costs, reported gross profit will be lower under FIFO than under ECRC. In recognition of the fact that the cost of raw materials affects our results of operations and the comparability of our results of operations, we provide the difference, or spread, between FIFO and ECRC to arrive at our Adjusted EBITDA.

International Operations and Currency Fluctuations. We operate a geographically diverse business, serving customers in numerous countries from thirteen manufacturing facilities on three continents. Our sales and production costs are mainly denominated in U.S. dollars, Brazilian Real, Euro, Japanese Yen, Swedish Krona, and NTD. 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:

Revenue by Geography	Years Ended December 31,		
	2020	2019	2018
Americas	44.9 %	41.8 %	42.1 %
Europe, Middle East, and Africa	34.7 %	33.9 %	35.3 %
Asia Pacific	20.4 %	24.3 %	22.6 %

Seasonality. Seasonal changes and weather conditions typically affect our sales of products in our paving, pavement markings, 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.

KRATON CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except per share data)

	Years Ended December 31,		
	2020	2019	2018
Revenue	\$ 1,563,150	\$ 1,804,436	\$ 2,011,675
Cost of goods sold	1,165,279	1,390,007	1,431,069
Gross profit	397,871	414,429	580,606
Operating expenses:			
Research and development	40,743	41,073	41,296
Selling, general, and administrative	161,944	149,800	153,897
Depreciation and amortization	126,022	136,171	141,410
Gain on insurance proceeds	—	(32,850)	(8,900)
Loss on disposal of fixed assets	750	773	2,169
Impairment of goodwill	400,000	—	—
Operating income (loss)	(331,588)	119,462	250,734
Other income (expense)	995	3,339	(3,472)
Disposition and exit of business activities	175,189	—	—
Loss on extinguishment of debt	(40,843)	(3,521)	(79,866)
Earnings of unconsolidated joint venture	457	506	471
Interest expense, net	(57,930)	(75,782)	(93,772)
Income (loss) before income taxes	(253,720)	44,004	74,095
Income tax benefit (expense)	32,034	11,813	(3,574)
Consolidated net income (loss)	(221,686)	55,817	70,521
Net income attributable to noncontrolling interest	(3,916)	(4,512)	(3,506)
Net income (loss) attributable to Kraton	<u>\$ (225,602)</u>	<u>\$ 51,305</u>	<u>\$ 67,015</u>
Earnings (loss) per common share:			
Basic	\$ (7.08)	\$ 1.61	\$ 2.10
Diluted	\$ (7.08)	\$ 1.60	\$ 2.08
Weighted average common shares outstanding:			
Basic	31,746	31,581	31,416
Diluted	31,746	31,881	31,789

Consolidated Results

Year Ended December 31, 2020 Compared to Year Ended December 31, 2019

Revenue was \$1,563.2 million for the year ended December 31, 2020 compared to \$1,804.4 million for the year ended December 31, 2019, a decrease of \$241.3 million, or 13.4%. Revenue for the Polymer segment decreased \$195.4 million, driven by lower sales volumes due to the divestiture of our Cariflex business in March 2020. Revenue for the Chemical segment decreased \$45.9 million. For additional information regarding the changes in revenue, see our segment disclosures below.

Cost of goods sold was \$1,165.3 million for the year ended December 31, 2020 compared to \$1,390.0 million for the year ended December 31, 2019, a decrease of \$224.7 million, or 16.2%. Cost of goods sold decreased \$193.1 million for the Polymer segment driven by lower volumes due to the divestiture of our Cariflex business in March 2020. Cost of goods sold for the Chemical segment decreased \$31.6 million. For additional information regarding the changes in cost of goods sold, see our segment disclosures below.

Selling, general, and administrative expenses were \$161.9 million for the year ended December 31, 2020 compared to \$149.8 million for the year ended December 31, 2019. The \$12.1 million increase is primarily attributable to higher transaction, acquisition, and restructuring costs related to the divestiture of our Cariflex business and higher employee related costs, partially offset by reduced fixed costs initiatives.

Depreciation and amortization was \$126.0 million for the year ended December 31, 2020 compared to \$136.2 million for the year ended December 31, 2019. The decrease of \$10.1 million was primarily attributable to the divestiture of our Cariflex business.

During the third quarter of 2020, we recorded a non-cash impairment charge of \$400.0 million within the Chemical segment. For more information regarding the goodwill impairment charge, see Note 14 *Industry Segments and Foreign Operations*.

Other income was \$1.0 million for the year ended December 31, 2020 compared to other income of \$3.3 million for the year ended December 31, 2019. The decrease of \$2.3 million is driven by a gain of \$4.6 million related to the sale of emissions credits accumulated by our Swedish Chemical legal entity during the year ended December 31, 2019, offset by lower net periodic pension expense of \$1.9 million during the year ended December 31, 2020.

Disposition and exit of business activities was \$175.2 million for the year ended December 31, 2020 related to the gain on sale of our Cariflex business. See Note 4 *Disposition and Exit of Business Activities* for further discussion on the sale of our Cariflex business.

We recorded a \$40.8 million loss on extinguishment of debt during the year ended December 31, 2020. This includes \$14.0 million in the first quarter of 2020 for the write off of previously capitalized deferred financing costs, the write off of original issue discount, and a loss on the settlement of the ineffective portion of interest rate swaps due to the repayment in full of our U.S. dollar denominated tranche (the “USD Tranche”) and a partial repayment of our Euro Tranche with the net cash proceeds from the sale of our Cariflex business. During the fourth quarter of 2020, we called for redemption and satisfied and discharged our 7.0% Senior Notes due 2025 (the “7.0% Senior Notes”) and issued our 4.25% Senior Notes, for which we incurred \$25.7 million for the write off of previously capitalized deferred financing costs and the call premium on our 7.0% Senior Notes. See Note 9 *Long-Term Debt* for further discussion.

We recorded a \$3.5 million loss on extinguishment of debt during the year ended December 31, 2019, as a result of partial repayments of our Term Loan Facility. This includes the write off of previously capitalized deferred financing costs and original issue discount, partially offset by a gain resulting from our repurchase of 7.0% Senior Notes.

Interest expense, net, was \$57.9 million for the year ended December 31, 2020 compared to \$75.8 million for the year ended December 31, 2019, a decrease of \$17.9 million. The decrease is due to the refinancing activities discussed above and lower overall indebtedness.

Our income tax provision was a \$32.0 million and an \$11.8 million benefit for the years ended December 31, 2020 and 2019, respectively. Our effective tax rates for the years ended December 31, 2020 and 2019 were a 12.6% and 26.8% benefit, respectively. During the year ended December 31, 2020, our effective tax rate differed from the U.S. corporate statutory tax rate of 21.0%, primarily due to the non-deductible goodwill impairment loss and reorganization income, offset by a tax benefit related to Dutch intellectual property rights and the tax impact of the sale of our Cariflex business. During the year ended December 31, 2019, our effective tax rate differed from the U.S. corporate statutory tax rate of 21.0%, primarily due to the reversal of certain uncertain tax positions, the mix of our pre-tax income or loss generated in various foreign jurisdictions, and the tax impact of certain permanent items.

As of December 31, 2020 and December 31, 2019, a valuation allowance of \$39.5 million and \$38.4 million, respectively, has been provided for NOL carryforwards and other deferred tax assets. We decreased our valuation allowance by \$4.0 million during the year ended December 31, 2019, which includes a \$3.9 million decrease primarily related to deferred tax rate changes and the utilization of NOL carryforwards in France and the United Kingdom. We consider the reversal of deferred tax liabilities within the NOL carryforward period, projected future taxable income, and tax planning strategies in making this assessment.

Net loss attributable to Kraton was \$225.6 million, or \$7.08 per diluted share, for the year ended December 31, 2020, a decrease of \$276.9 million compared to a net income of \$51.3 million, or \$1.60 per diluted share, for the year ended December 31, 2019. Adjusted diluted earnings per share (non-GAAP) was \$1.29 for the year ended December 31, 2020 compared to \$2.94 for the year ended December 31, 2019. See *Item 6. Selected Financial Data* for a reconciliation of U.S. GAAP diluted earnings (loss) per share to adjusted diluted earnings per share.

Segment Results

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

Polymer Segment

	Years Ended December 31,					
	2020		2019		2018	
Revenue	(\$ In thousands)					
Performance Products	\$ 459,906	53.6 %	\$ 531,437	50.5 %	\$ 631,728	51.7 %
Specialty Polymers	316,206	36.9 %	334,726	31.7 %	408,628	33.5 %
Cariflex ⁽¹⁾	36,930	4.3 %	186,266	17.7 %	180,814	14.8 %
Isoprene Rubber ⁽¹⁾	42,986	5.0 %	—	— %	—	— %
Other	1,530	0.2 %	539	0.1 %	416	— %
	<u>\$ 857,558</u>		<u>\$ 1,052,968</u>		<u>\$ 1,221,586</u>	
Operating income	\$ 56,802		\$ 57,343		\$ 159,162	
Adjusted EBITDA (non-GAAP) ⁽²⁾	\$ 167,483		\$ 188,164		\$ 214,802	
Adjusted EBITDA margin (non-GAAP) ⁽³⁾	19.5 %		17.9 %		17.6 %	

(1) Our Cariflex revenue includes sales through March 6, 2020. We continue to sell Isoprene Rubber to Daelim under the IRSA. Sales under the IRSA are transacted at cost. Included in Adjusted EBITDA is the amortization of non-cash deferred income of \$18.5 million for the year ended December 31, 2020, which represents revenue deferred until the products are sold under the IRSA.

(2) See *Item 6. Selected Financial Data* for a reconciliation of U.S. GAAP operating income to non-GAAP Adjusted EBITDA.

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

Year Ended December 31, 2020 Compared to Year Ended December 31, 2019

Revenue for the Polymer segment was \$857.6 million for the year ended December 31, 2020 compared to \$1,053.0 million for the year ended December 31, 2019. The decrease was due to lower sales volumes driven by the divestiture of our Cariflex business in March 2020 and lower average sales prices resulting from lower raw material costs across all product lines. The positive effect from changes in currency exchange rates between the periods was \$2.5 million.

Polymer Segment Sales Volume % Change	Year Ended December 31, 2020
Performance Products	2.2 %
Specialty Polymers	5.2 %
Isoprene Rubber	100.0 %
Subtotal	5.5 %
Cariflex	(80.4)%
Total	(1.4)%

Sales volumes were 291.8 kilotons for the year ended December 31, 2020, a decrease of 4.2 kilotons, or 1.4%. The decrease is largely attributable to the divestiture of our Cariflex business, partially offset by the commencement of the IRSA during the first quarter of 2020. Specialty Polymers volumes increased 5.2% primarily driven by demand recovery in Asia. While we experienced the impacts of COVID-19 during the first half of 2020, the demand recovered during the second half of the year. The 2.2% increase in Performance Products sales volumes was driven by higher sales into adhesives applications, as well as improved paving and roofing demand within North America.

Cost of goods sold was \$627.3 million for the year ended December 31, 2020 compared to \$820.4 million for the year ended December 31, 2019, a decrease of \$193.1 million, or 23.5%. The decrease in cost of goods sold reflects lower volumes and fixed costs as a result of the divestiture of our Cariflex business, lower average raw material costs, and lower maintenance and turnaround expense. Additionally, the cost of consumed raw materials were lower, which has lower average costs on a FIFO measurement basis of accounting. These impacts were partially offset by higher sales volumes in our Specialty Polymers and Performance Products product lines and the commencement of the IRSA during the first quarter of 2020. Additionally, changes in currency exchange rates between the periods resulted in a positive impact of \$2.6 million.

For the year ended December 31, 2020, the Polymer segment operating income was \$56.8 million compared to \$57.3 million for the year ended December 31, 2019.

For the year ended December 31, 2020, the Polymer segment generated Adjusted EBITDA (non-GAAP) of \$167.5 million compared to \$188.2 million for the year ended December 31, 2019. The decrease in Adjusted EBITDA (non-GAAP) is mainly attributed to the divestiture of our Cariflex business in March 2020, in addition to the factors described above. However,

on a comparative basis, excluding the net impact of \$44.3 million attributable to the disposition of our Cariflex business, Adjusted EBITDA (non-GAAP) would have been approximately 18.0% higher for the year ended December 31, 2020. The positive effect from changes in currency exchange rates between the periods was \$5.1 million. See *Item 6. Selected Financial Data* for a reconciliation of U.S. GAAP operating income to Adjusted EBITDA (non-GAAP).

Chemical Segment

	Years Ended December 31,					
	2020		2019		2018	
Revenue	(\$ In thousands)					
Adhesives	\$ 257,855	36.5 %	\$ 262,941	35.0 %	\$ 280,867	35.5 %
Performance Chemicals	406,152	57.6 %	438,146	58.3 %	461,100	58.4 %
Tires	41,585	5.9 %	50,381	6.7 %	48,122	6.1 %
	<u>\$ 705,592</u>		<u>\$ 751,468</u>		<u>\$ 790,089</u>	
Operating income	\$ (388,390)		\$ 62,119		\$ 91,572	
Adjusted EBITDA (non-GAAP) ⁽¹⁾	\$ 94,614		\$ 132,428		\$ 163,241	
Adjusted EBITDA margin (non-GAAP) ⁽²⁾	13.4 %		17.6 %		20.7 %	

(1) See *Item 6. Selected Financial Data* for a reconciliation of U.S. GAAP operating income to non-GAAP Adjusted EBITDA.

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

Year Ended December 31, 2020 Compared to Year Ended December 31, 2019

Revenue for the Chemical segment was \$705.6 million for the year ended December 31, 2020 compared to \$751.5 million for the year ended December 31, 2019. The decrease was primarily attributable to lower average sales prices in the CST chain driven by a decrease in gum turpentine price and lower average sales prices for rosin esters associated with excess hydrocarbon tackifier supply. The decline was also due to lower average sales prices in TOFA upgrades associated with the adverse impact of COVID-19. These impacts were partially offset by higher sales volumes of rosin ester adhesives and opportunistic raw material sales. The positive effect from changes in currency exchange rates between the periods was \$8.5 million.

Chemical Segment Sales Volume % Change	Year Ended December 31, 2020
Adhesives	2.7 %
Performance Chemicals	9.2 %
Tires ⁽¹⁾	0.3 %
Total	6.8 %

(1) Tires volumes are less than 5% of total Chemical segment volumes.

Sales volumes were 425.7 kilotons for the year ended December 31, 2020, an increase of 27.1 kilotons, or 6.8%, with higher opportunistic raw material sales within Performance Chemicals and increased rosin ester sales volumes, partially offset by lower sales volumes for TOFA and TOFA derivatives related to COVID-19 demand pressures.

Cost of goods sold was \$538.0 million for the year ended December 31, 2020 compared to \$569.6 million for the year ended December 31, 2019, a decrease of \$31.6 million, or 5.6%. The decrease was driven by a decline in average raw material and energy costs, combined with lower sales of refinery product upgrades, partially offset by higher raw material sales volumes and timing of certain fixed costs. Additionally, the changes in currency exchange rates between the periods resulted in a negative impact of \$7.6 million.

As of December 31, 2019, we finalized our insurance claims with our carrier related to Hurricane Michael. During the year ended December 31, 2019, we incurred an incremental \$14.2 million of direct costs as we finalized the production ramp up back to operating capacity. Our insurance carrier provided an additional \$32.9 million, of which \$1.1 million was received in 2018 and deferred into 2019 when realized, of reimbursements under our insurance policies, which we recorded as a gain on insurance proceeds in the Consolidated Statement of Operations. This brings our total insurance proceeds to \$41.8 million, which offsets the lost margin and reimburses us for the direct costs and capital expenditures.

For the year ended December 31, 2020, the Chemical segment operating loss was \$388.4 million compared to operating income of \$62.1 million for the year ended December 31, 2019, a decrease of \$450.5 million, largely due to a non-

cash impairment charge of \$400.0 million during the year ended December 31, 2020 and finalizing insurance claims related to Hurricane Michael in the year ended December 31, 2019, resulting in a \$32.9 million recorded as a gain on insurance proceeds in the Condensed Consolidated Statement of Operations.

For the year ended December 31, 2020, the Chemical segment generated \$94.6 million of Adjusted EBITDA (non-GAAP) compared to \$132.4 million for the year ended December 31, 2019. The 28.6% decrease in Adjusted EBITDA (non-GAAP) was primarily driven by lower margins as a result of a decline in average sales prices impacting the CST refinery and rosin ester products. The decrease was also driven by the decline in TOFA and TOFA derivative sales volumes impacted by market fundamentals, primarily due to COVID-19 and higher fixed costs, partially offset by higher opportunistic raw material sales. The positive effect from changes in currency exchange rates between the periods was \$1.0 million. See *Item 6. Selected Financial Data* for a reconciliation of U.S. GAAP operating income to non-GAAP Adjusted EBITDA.

Critical Accounting Policies

The preparation of these financial statements in conformity with U.S. GAAP requires management to make assumptions and estimates that directly affect the amounts reported in the consolidated financial statements. Certain critical accounting policies requiring significant judgments, estimates, and assumptions are described in this section. We consider an accounting estimate to be critical if it requires assumptions to be made that are uncertain at the time the estimate is made and changes to the estimate or different estimates that could have reasonably been used would materially change our consolidated financial statements.

We believe the current assumptions and other considerations used to estimate amounts reflected in our consolidated financial statements are appropriate. However, should our actual experience differ from these assumptions and other considerations used in estimating these amounts, the impact of these differences could have a material impact on our consolidated financial statements.

Inventories. Inventory values include all costs directly associated with manufacturing products and are stated at the lower of cost or net realizable value, primarily determined on a first-in, first-out basis. We evaluate the carrying cost of our inventory on a quarterly basis for this purpose. If the cost of the inventories exceeds their net realizable value, provisions are made for the difference between the cost and the net realizable value.

Impairment of Long-Lived Assets. In accordance with the Impairment or Disposal of Long-Lived Assets Subsections of Financial Accounting Standards Board (“FASB”) ASC Subtopic 360-10, *Property, Plant, and Equipment—Overall*, long-lived assets, such as property, plant, and equipment, and purchased intangible assets subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If circumstances require a long-lived asset or asset group be tested for possible impairment, we first compare undiscounted cash flows expected to be generated by that asset or asset group to its carrying value. If the carrying value of the long-lived asset or asset group is not recoverable on an undiscounted cash flow basis, impairment is recognized to the extent that the carrying value exceeds its fair value. Fair value is determined through various valuation techniques including discounted cash flow models, quoted market values, and third-party independent appraisals, as considered necessary.

Goodwill. We record goodwill when the purchase price of an acquired business exceeds the fair value of the net identifiable assets acquired. Goodwill is allocated to the reporting unit level based on the estimated fair value at the date of acquisition. Goodwill was recorded as a result of the Arizona Chemical Acquisition and is recorded in the Chemical operating segment.

Goodwill is tested for impairment at the reporting unit level annually or more frequently as deemed necessary. Our annual measurement date for testing impairment is October 1st. The assessment is performed in three steps. We assess qualitative factors, or step zero, to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If it is more likely than not that an impairment indicator exists utilizing the qualitative method, we then utilize step one to test for impairment via estimating the fair value of our reporting units utilizing a combination of market and income approaches. This step one provides a fair value to determine whether it is more likely than not that the fair value of the reporting unit is less than its carrying value, including goodwill. The estimated fair value of our reporting units are subject to a number of estimates, including discount rates, revenue growth rates, cash flow assumptions, and market information. If potential impairments are identified, we perform step two to measure the impairment loss through a full fair value allocation of the assets and liabilities of the reporting unit utilizing the acquisition method of accounting.

During the third quarter of 2020, the Company identified indicators of impairment of our Chemical segment’s goodwill. We performed an interim impairment test of goodwill as of September 30, 2020. As a result, we recorded a non-cash impairment charge of \$400.0 million within the Chemical segment. The Company updated this assessment as of October 1, 2020 (our annual impairment date) utilizing a qualitative approach, and noted no impairment indicators during the fourth quarter of 2020. There can be no assurances that future sustained declines in macroeconomic or business conditions affecting our industry will not occur, which could result in goodwill impairment charges in future periods. For further discussion on goodwill, see Note 14 *Industry Segment and Foreign Operations*.

Share-Based Compensation. Share-based compensation cost is measured at the grant date based on the fair value of the award. We recognize these costs using the straight-line method over the requisite service period. Upon adoption of ASU 2016-09, *Improvements to Employee Share-Based Payment Accounting (Topic 817)*, we now recognize actual forfeitures by reducing the employee share-based compensation expense in the same period as the forfeitures occur.

We estimate the fair value of performance-based restricted share units using a combination of Monte Carlo simulations and internal metrics. The expected term represents the period of time that performance share units granted are expected to be outstanding. Our expected volatilities are based on historical volatilities for Kraton and the members of the peer group. The risk free interest rate for the periods within the contractual life of the performance-based restricted share units is equal to the yield, as of the valuation date, of the zero coupon U.S. Treasury STRIPS that have a remaining term equal to the length of the

remaining performance period. The expected dividend yield is assumed to be zero, which is the equivalent of reinvesting dividends in the underlying company's stock. Forfeitures are recognized when they occur. See Note 6 *Share-Based Compensation* to the consolidated financial statements.

Income Taxes. We conduct operations in separate legal entities in different jurisdictions. As a result, income tax amounts are reflected in our consolidated financial statements for each of those jurisdictions.

Income taxes are recorded utilizing an asset and liability approach. This method gives consideration to the future tax consequences associated with the differences between the financial accounting and tax basis of the assets and liabilities as well as the ultimate realization of any deferred tax asset resulting from such differences.

Valuation allowances are recorded to reduce deferred tax assets when it is more likely than not that a tax benefit will not be realized.

In assessing the realizability of deferred tax assets, we consider all available evidence both positive and negative, to determine whether a valuation allowance is necessary relative to net deferred tax assets. In making this determination, we consider the current year and two preceding years for potential cumulative losses, and sources of income for sufficient taxable income. We consider the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. Based upon the level of historical taxable income and projections for future taxable income over the periods in which the deferred tax assets are deductible, we believe it is more likely than not that we will realize the benefits of these deductible differences, net of the existing valuation allowances.

Benefit Plans Valuations. We sponsor defined benefit pension plans in both the U.S. and non-U.S. entities ("Pension Plans"), as well as a post-retirement benefit plan in the U.S. ("Retiree Medical Plan"). We annually evaluate significant assumptions related to the benefits and obligations of these plans. Our estimation of the projected benefit obligations and related benefit expense requires that certain assumptions be made regarding such variables such as expected return on plan assets, discount rates, rates of future compensation increases, estimated future employee turnover rates and retirement dates, distribution election rates, mortality rates, retiree utilization rates for health care services, and health care cost trend rates. The determination of the appropriate assumptions requires considerable judgment concerning future events and has a significant impact on the amount of the obligations and expense recorded. We rely in part on actuarial studies when determining the appropriateness of certain of the assumptions used in determining the benefit obligations and the annual expenses for these plans.

The discount rates are determined annually and are based on rates of return of high-quality long-term fixed income securities currently available with maturities consistent with the projected benefit payout period. The expected long-term rate of return on assets is derived from a review of anticipated future long-term performance of individual asset classes and consideration of an appropriate asset allocation strategy, given the anticipated requirements of the Pension Plans, to determine the average rate of earnings expected on the funds invested to provide for the pension plan benefits. We also consider recent fund performance and historical returns in establishing the expected rate of return. We estimated a range of returns on the plan assets using a historical stochastic simulation model that determines the compound average annual return (assuming these asset classes—stocks, bonds and cash) over a 20-year historical period (the approximate duration of our liabilities under the Pension Plans). The distribution of results from these simulations is then used to determine a median expected asset return.

Movements in the capital markets impact the market value of the investment assets used to fund our Pension Plans. Future changes in plan asset returns, assumed discount rates, and various other factors related to our pension and post-retirement plans will impact future pension expenses and liabilities.

The information below summarizes the results of sensitivities to significant estimates in our Pension Plans and Retiree Medical Plan, which would result in additional expense for fiscal year 2021. For additional information about our benefit plans, see Note 13 *Employee Benefits* to the consolidated financial statements.

	<u>Change from Baseline</u> <u>(In thousands)</u>
U.S. Pension Plans	
Discount rate	
1% Increase	\$ 70
Expected return on assets	
1% Decrease	\$ 1,420
Non-U.S. Pension Plans	
Discount rate	
1% Decrease	\$ 726
Expected return on assets	
1% Decrease	\$ 692
Expected salary rate	
1% Increase	\$ 326
Retiree Medical Plan	
Discount rate	
1% Decrease	\$ 210
Health care trend	
1% Increase	\$ 10

Revenue Recognition. Revenue is recognized in accordance with the provisions of ASC 606, *Revenue from Contracts with Customers*, when obligations under the terms of a contract with our customer are satisfied. Generally, this occurs at a point in time when the transfer of risk and title to the product transfers to the customer. Our products are generally sold free on board shipping point or, with respect to countries other than the U.S., an equivalent basis. Our standard terms of delivery are included in our contracts of sale, order confirmation documents, and invoices. As such, all revenue is considered revenue recognized from contracts with customers and we do not have other sources of revenue. Revenue is measured as the amount of consideration we expect to receive in exchange for transferring goods or providing services. Revenue is recognized net of sales tax, value-added taxes, and other taxes. Shipping and other transportation costs charged to customers are recorded in both revenue and cost of goods sold. We do not have any material significant payment terms as payment is received at or shortly after the point of sale. Certain customers may receive cash-based incentives (including rebates and price supports), which are accounted for as variable consideration. We estimate rebates and price supports based on the expected amount to be provided to customers and reduce revenues recognized once the performance obligation has been met. Sales commissions are expensed in cost of goods sold once the performance obligation with the associated sale has been met. We do not have significant changes in our estimates for variable considerations.

LIQUIDITY AND CAPITAL RESOURCES

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 ABL Facility, and other debt offerings we may conduct from time to time, are our principal sources of liquidity.

COVID-19 Pandemic Governmental Liquidity Programs

We continue to monitor government economic stabilization efforts in response to the COVID-19 pandemic and are participating, and may in the future participate, in certain legislative provisions to enhance our liquidity, including certain provisions of the Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act") and similar federal or foreign governmental programs. For example, we are evaluating certain cash deferral options under the CARES Act and similar federal or foreign governmental programs.

We do not expect any elections made or participation in programs under the CARES Act and similar federal or foreign governmental programs to have a material impact on our cash flows and results of operations. We will continue to evaluate our options under the CARES Act and similar federal or foreign programs as legislative provisions occur.

Changes in Debt and Net Debt

We reduced our consolidated debt by \$440.6 million and our consolidated net debt excluding the effect of foreign currency (non-GAAP) by \$541.4 million for the year ended December 31, 2020. Further, we had approximately \$276.6 million of available liquidity, comprised of \$85.9 million of cash on hand and a borrowing base of \$190.7 million on our ABL Facility as of December 31, 2020. As of the date of this filing, our available borrowing capacity under the ABL Facility was \$175.5 million, with \$14.0 million of outstanding borrowings and \$11.3 million of letters of credit outstanding under the facility.

Management uses consolidated net debt to determine our outstanding debt obligations that would not readily be satisfied by its cash and cash equivalents on hand. Management believes that using consolidated net debt is useful to investors in determining our leverage since we could choose to use cash and cash equivalents to retire debt. We also present consolidated net debt, as adjusted for foreign exchange impact accounts for the foreign exchange effect on our foreign currency denominated debt agreements.

Summary of principal amounts for indebtedness and a reconciliation of Kraton debt to consolidated net debt (non-GAAP) and consolidated net debt excluding the effect of foreign currency (non-GAAP):

	December 31, 2020	December 31, 2019
	(In thousands)	
Kraton debt	\$ 860,360	\$ 1,288,277
KFPC loans ⁽¹⁾	89,733	102,385
Consolidated debt	950,093	1,390,662
Kraton cash	82,804	24,631
KFPC cash ⁽²⁾	3,097	10,402
Consolidated cash	85,901	35,033
Consolidated net debt ⁽³⁾	<u>\$ 864,192</u>	<u>\$ 1,355,629</u>
Effect of foreign currency on consolidated net debt	(49,970)	
Consolidated net debt excluding effect of foreign currency ⁽³⁾	<u>\$ 814,222</u>	

(1) KFPC executed the KFPC Revolving 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.

(2) Cash at our KFPC joint venture, located in Mailiao, Taiwan, which we own a 50% stake in and consolidate within our financial statements.

(3) We incurred \$43.0 million related to the refinancings of our 7.0% Senior Notes and ABL for the year ended December 31, 2020. Excluding these refinancing impacts, consolidated net debt and consolidated net debt excluding the effect of foreign currency would have been \$821.2 million and \$771.3 million, respectively.

Principal Balances of Debt and Liquidity Considerations

As of December 31, 2020, our outstanding borrowings included (i) €85.0 million, or approximately \$104.2 million, under the Euro Tranche of the Term Loan Facility and (ii) \$400.0 million and €290.0 million, or approximately \$355.4 million, under the 4.25% Senior Notes and 5.25% Senior Notes, respectively. As of December 31, 2020, we had no outstanding borrowings under our ABL Facility.

In addition, as of December 31, 2020, KFPC had NTD 1.5 billion, or approximately \$52.7 million, and NTD 1.0 billion, or approximately \$37.0 million, of borrowings under the KFPC Loan Agreement and KFPC Revolving Facilities, respectively. The KFPC Loan Agreement will mature on January 17, 2022.

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, market conditions (including the impact of COVID-19), 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 arrangements to fund liquidity needs and enable us to service our indebtedness. As of the date of this filing, we had \$14.0 million of outstanding borrowings under the ABL Facility with a remaining available borrowing capacity of \$175.5 million. 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.

Pension and Other Retirement Benefit Plan Contributions

We made contributions of \$10.3 million to our Pension Plans and Retiree Medical Plan for the year ended December 31, 2020 and \$13.7 million for the year ended December 31, 2019. We expect our total Pension Plans and Retiree Medical Plan contributions for the year ended December 31, 2021 to be approximately \$16.6 million. Our Pension Plans and Retiree Medical Plan obligations are predicated on a number of factors, the primary ones being the return on our Pension Plans' assets and the discount rates used in deriving our Pension Plans and Retiree Medical Plan obligations. If the investment returns on our Pension Plans' assets do not meet or exceed expectations during 2021, and the discount rates decrease on our Pension Plans and Retiree Medical Plan from the prior year, higher levels of contributions could be required in 2022 and beyond.

Additional Liquidity Considerations

As of December 31, 2020, we had \$68.3 million of cash and short-term investments related to foreign operations that management asserts are permanently reinvested.

In December 2017, the Tax Act was enacted and resulted in a one-time transition tax on accumulated foreign subsidiary earnings. After 2017, our foreign earnings held by foreign subsidiaries are no longer subject to U.S. tax upon repatriation to the U.S. As of December 31, 2020, the remaining long-term tax payable related to the Tax Act of \$10.7 million is presented within income tax payable, non-current on our Consolidated Balance Sheets. As permitted by the Tax Act, we will pay the transition tax in annual interest-free installments through 2025.

Turbulence in U.S. and international markets and economies (including the impact of COVID-19) 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, to make anticipated capital expenditures, and to 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* for further discussion.

Operating Cash Flows

Net cash provided by operating activities totaled \$151.3 million for the year ended December 31, 2020 and \$234.9 million for the year ended December 31, 2019. This represents a net decrease of \$83.6 million, which was primarily driven by decreases in operating income, partially offset by decreases in working capital. The period-over-period changes in working capital are as follows:

- \$28.3 million decrease in cash flows associated with inventories of products, materials, and supplies due to higher inventory volumes;
- \$6.4 million decrease in cash flows for accounts receivable, primarily related to lower selling prices; and
- \$7.9 million decrease in cash flows due to the timing of payments of other items, including, pension costs, value added taxes, and related party transactions; partially offset by
- \$25.6 million increase in cash flows for other payables and accruals due to employee related and income taxes;
- \$10.5 million increase in cash flows associated with other long term liabilities due to lower pension contributions; and
- \$3.8 million increase in cash flows associated with trade accounts payable due to timing of payments.

Net cash provided by operating activities totaled \$234.9 million for the year ended December 31, 2019 and \$246.6 million for the year ended December 31, 2018. This represents a net decrease of \$11.6 million, which was primarily driven by decreases in operating income, partially offset by decreases in working capital. The period-over-period changes in working capital are as follows:

- \$104.6 million increase in cash flows associated with inventories of products, materials, and supplies, due to lower inventory volumes and lower raw material costs; and
- \$13.7 million increase in cash flows for accounts receivable, primarily related to lower selling prices; partially offset by
- \$27.1 million decrease in cash flows associated with other long term liabilities due to increased pension contributions;
- \$23.7 million decrease in cash flows associated with trade accounts payable due to timing of payments and lower raw material costs; and
- \$7.5 million decrease in cash flows due to the timing of payments of other items, including other payables and accruals, related party transactions, pension costs, and value added taxes.

Investing Cash Flows

On March 6, 2020, we completed the sale of our Cariflex business to Daelim for gross proceeds of \$530.0 million, adjusted for incremental working capital of \$5.8 million, less contractual capital contributions of \$25.3 million, for net proceeds of \$510.5 million. The closing is subject to a customary post-closing working capital adjustment and a contractual capital contribution post-closing adjustment.

Net cash provided by investing activities totaled \$424.5 million for December 31, 2020 compared to net cash used in investing activities totaling \$108.7 million and \$111.1 million for the years ended December 31, 2019 and 2018, respectively.

Capital projects in 2020 included the following:

- \$53.8 million related to infrastructure and maintenance, and health, safety, environmental, and security projects to improve operating reliability and safety performance;
- \$15.9 million related to projects to optimize the production capabilities of our manufacturing assets, including projects to deliver strategic cost savings or additional capacity; and
- \$7.8 million of capital expenditures related to information technology and research and development.

Capital projects in 2019 included the following:

- \$67.0 million related to infrastructure and maintenance, and health, safety, environmental, and security projects to improve operating reliability and safety performance;
- \$22.0 million related to projects to optimize the production capabilities of our manufacturing assets, including projects to deliver strategic cost savings or additional capacity; and
- \$14.0 million of capital expenditures related to information technology and research and development.

Expected Capital Expenditures

We currently expect 2021 capital expenditures, excluding expenditures by the KFPC joint venture, will be approximately \$100.0 million, which includes approximately \$4.0 million of capitalized interest. Also included is approximately \$75.0 million for infrastructure and maintenance, and health, safety, environmental, and security projects. The remaining anticipated 2021 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 and Liquidity

Our consolidated capital structure as of December 31, 2020 was approximately 37.8% equity, 59.4% debt, and 2.8% noncontrolling interest, compared to approximately 34.5% equity, 63.8% debt, and 1.7% noncontrolling interest as of December 31, 2019.

Net cash used in financing activities totaled \$520.9 million for the year ended December 31, 2020 compared to \$176.1 million and \$136.7 million for the years ended December 31, 2019 and 2018, respectively.

During the year ended December 31, 2020, we decreased indebtedness, excluding impacts on foreign currency, by \$490.5 million, primarily from the use of proceeds from the sale of our Cariflex business. In addition, cash on hand increased by approximately \$50.9 million due to cash from operations, partially offset by our reinvestment in the business for capital expenditures and debt refinancing activities.

We evaluate ongoing opportunities to refinance our debt, if available, on terms, rates, or time periods more favorable to us. As a result of the divestiture of our Cariflex business, we fully repaid \$290.0 million of outstanding borrowings under the USD Tranche and repaid €160.0 million (or approximately \$184.8 million) of outstanding borrowings under the Euro Tranche of our Term Loan Facility. Additionally, in an effort to improve our debt portfolio, during the fourth quarter of 2020, we called for redemption and satisfied and discharged our 7.0% Senior Notes and issued our 4.25% Senior Notes.

In connection with the debt reductions associated with the divestiture of our Cariflex business and our fourth quarter of 2020 refinancing, we recorded a \$40.8 million loss on extinguishment of debt during the year ended December 31, 2020. This includes a write off of \$20.7 million related to the call premium on the redemption of our outstanding 7.0% Senior Notes, a write off of \$13.9 million related to previously capitalized deferred financing costs on our Term Loan Facility and 7.0% Senior Notes, a write off of \$4.9 million related to original issue discount on our USD Tranche, and a \$1.3 million loss on the settlement of the ineffective portion of interest rate swaps. See Note 9 *Long-Term Debt* for further discussion.

In connection with our March and May 2018 refinancing of the Term Loan Facility and the 10.5% Senior Notes due 2023 (the “10.5% Senior Notes”), we recorded a \$79.9 million loss on extinguishment of debt during the year ended December 31, 2018, which includes the write off of previously capitalized deferred financing costs and original issue discount, the tender offer and subsequent redemption of our 10.5% Senior Notes, partially offset by a gain on the settlement of the ineffective portion of interest rate swaps. We deferred \$11.1 million of debt issuance costs.

Share Repurchase Program

In February 2019, we announced a repurchase program for up to \$50.0 million of the Company’s common stock by March 2021. Repurchases may be made at management’s discretion from time to time through privately-negotiated transactions, in the open market, or through broker-negotiated purchases in compliance with applicable securities law, including through a 10b5-1 Plan. The repurchase program may be suspended for periods or discontinued at any time, and the amount and timing of the repurchases are subject to a number of factors, including Kraton’s stock price. From inception of the program, we repurchased 311,152 shares of our common stock at an average price of \$32.14 per share and a total cost of \$10.0 million. We are not obligated to acquire any specific number of shares of our common stock.

On December 6, 2018, we commenced a repurchase program for up to \$20.0 million of our 7.0% Senior Notes. During the year ended December 31, 2019 and 2018, we repurchased \$4.3 million and \$0.9 million, respectively, of our 7.0% Senior Notes.

Other Contingencies

As a chemicals manufacturer, our operations in the U.S. and abroad are subject to a wide range of environmental laws and regulations at the international, national, state, and local levels. These laws and regulations govern, among other things, air emissions, wastewater discharges, the use, handling, and disposal of hazardous materials and wastes, occupational health and safety, including dust and noise control, site remediation programs, and chemical registration, use, and management.

Pursuant to these laws and regulations, our facilities are required to obtain and comply with a wide variety of environmental permits and authorizations for different aspects of their operations. Generally, many of these environmental laws and regulations are becoming increasingly stringent, and the cost of compliance with these various requirements can be expected to increase over time.

In connection with our separation from Shell Chemicals in February 2001, Shell Chemicals agreed to indemnify us for specific categories of environmental claims brought with respect to matters occurring before the separation. However, the indemnity from Shell Chemicals is subject to dollar and time limitations. Coverage under the indemnity also varies depending upon the nature of the environmental claim, the location giving rise to the claim and the manner in which the claim is triggered. Therefore, if claims arise in the future related to past operations, we cannot give assurances that those claims will be covered by the Shell Chemicals' indemnity and also cannot be certain that any amounts recoverable will be sufficient to satisfy claims against us.

In connection with International Paper's divestiture of Arizona Chemical in February 2007, International Paper provided an indemnity to the buyer for specific known environmental liabilities and other environmental liabilities pertaining to former properties. At the closing of the Arizona Chemical Acquisition, Kraton was assigned the right to International Paper's indemnity for such environmental liabilities and assumed certain related obligations. Certain liabilities may fall outside the scope of the indemnity and therefore we cannot be certain that the indemnity will be sufficient to satisfy all environmental liabilities of Arizona Chemical.

In addition, we may in the future be subject to claims that arise solely from events or circumstances occurring after February 2001 for legacy Kraton manufacturing sites or after February 2007 for legacy Arizona Chemical manufacturing sites, which would not, in any event, be covered by the Shell Chemicals or International Paper indemnities, respectively. While we recognize that we may in the future be held liable for remediation activities beyond those identified to date, at present we are not aware of any circumstances that are reasonably expected to give rise to remediation claims that would have a material adverse effect on our results of operations or cause us to exceed our projected level of anticipated capital expenditures.

Except for the foregoing, we currently estimate that any expenses incurred in maintaining compliance with environmental laws and regulations will not materially affect our results of operations or cause us to exceed our level of anticipated capital expenditures. However, we cannot give assurances that unknown contingencies may not arise or that regulatory requirements or permit conditions will not change, and we cannot predict the aggregate costs of additional measures that may be required to maintain compliance as a result of such changes or expenses.

We had no material operating expenditures for environmental fines, penalties, government imposed remedial, or corrective actions during the years ended December 31, 2020, 2019, or 2018.

Off-Balance Sheet Arrangements

We are not a party to any material off-balance sheet arrangements as of December 31, 2020.

Contractual Obligations

Our principal outstanding contractual obligations relate to the Term Loan Facility, Senior Notes, KFPC Loan Agreement, interest payments, the operating leases of some of our facilities, the minimum purchase obligations required under our KFPC joint venture agreement and other agreements, and the feedstock contracts with LyondellBasell and others to provide us with raw materials. The following table summarizes our contractual cash obligations as of December 31, 2020 for the periods indicated.

	Payments Due by Period						
	Total	2021	2022	2023	2024	2025	2026 and thereafter
	(In millions)						
Long-term debt obligations ⁽¹⁾	\$ 950.1	\$ 72.3	\$ 17.8	\$ 0.2	\$ 0.2	\$ 504.2	\$ 355.4
Estimated interest payments on debt	201.1	39.7	39.4	39.3	39.3	36.4	7.0
Operating lease obligations	97.7	21.1	16.0	14.3	10.7	8.6	27.0
Purchase obligations ⁽²⁾⁽³⁾	2,406.3	431.9	301.3	206.0	139.5	139.5	1,188.1
Uncertain tax positions, including interest and penalties ⁽⁴⁾	8.8	—	—	—	—	—	8.8
Estimated pension obligations	16.6	16.6	—	—	—	—	—
Total contractual cash obligations	\$ 3,680.6	\$ 581.6	\$ 374.5	\$ 259.8	\$ 189.7	\$ 688.7	\$ 1,586.3

(1) Includes capital lease obligations.

(2) Included in this line are our estimated minimum purchases required under our KFPC joint venture agreement. Due to the indefinite term of this joint venture, we have based our minimum purchases on an assumed 20 year useful life of the facility.

(3) Pursuant to operating agreements with LyondellBasell, we are currently paying the costs incurred by them in connection with the operation and maintenance of, and other services related to, our Berre, France, and Wesseling, Germany, facilities. These obligations are not included in this table.

(4) Due to uncertainties in the timing of the effective settlement of tax positions with the respective taxing authorities, we are unable to determine the timing of payments related to uncertain tax positions, including interest and penalties. Amounts beyond the current year are therefore reflected in "2026 and thereafter."

Impact of Inflation. Our results of operations and financial condition are presented based on historical cost. While it is difficult to accurately measure the impact of inflation due to the imprecise nature of the estimates required, we do not believe the overall effects of inflation, if any, on our results of operations and financial condition have been material.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk.

We are exposed to certain market risks, including risks from changes in interest rates, foreign currency exchange rates, and commodity prices that could impact our financial condition, results of operations, and cash flows. We selectively manage our exposure to these and other market risks through regular operating and financing activities as well as through the use of market risk sensitive instruments. We use such financial instruments as risk management tools and not for trading purposes. The market risk sensitive instruments that we have entered into as of December 31, 2020 consist of a series of non-deliverable forward contracts.

Interest rate risk. Borrowings under the Term Loan Facility, the ABL Facility, KFPC Loan Agreement, and KFPC Revolving Credit Facilities, and additional borrowings in the future may, bear interest at variable rates, thereby exposing us to interest rate risk. At December 31, 2020, approximately \$193.9 million of our debt was variable rate debt.

We performed a hypothetical analysis to determine the impact to our financial position if the interest rates increased or decreased by 10%, from the rates as of December 31, 2020 for the life of the variable rate debt, which would result in a change of less than \$0.1 million as of December 31, 2020.

As a result of our variable interest rate floors, a hypothetical 10% change in interest rates would not materially impact our interest expense. However, we may incur additional interest expense in the future if the variable interest rates increase higher than our applicable interest rate floors.

Foreign currency exchange risk. We conduct operations in many countries around the world. Our results of operations are subject to both currency transaction and currency translation risk. We incur currency transaction risk when we enter into either a purchase or sale transaction using a currency other than the local currency of the transacting entity. We are subject to currency translation risk because our financial condition and results of operations are measured and recorded in the relevant domestic currency and then translated into U.S. dollars for inclusion in our historical consolidated financial statements. We attempt to selectively manage significant exposures to potential foreign currency exchange losses based on current market conditions, future operating activities, and the associated cost in relation to the perceived risk of loss. The purpose of our foreign currency risk management activities is to minimize the risk that our cash flows from the sale and/or purchase of services and products in foreign currencies will be adversely affected by changes in exchange rates.

Periodically, we enter into foreign currency agreements to hedge or otherwise protect against fluctuations in foreign currency exchange rates. These agreements typically 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. In 2020 and 2019, we entered into a series of foreign currency forward contracts to reduce our exposure to exchange rate volatility. These contracts were structured such that the underlying foreign currency exchange gains/losses would be offset by the mark-to-market impact of the hedging instruments and reduce the impact of foreign currency exchange movements throughout the year. The notional amounts of open foreign currency forward contracts were \$70.8 million at December 31, 2020 and \$100.2 million at December 31, 2019. The notional amounts of our forward contracts do not generally represent amounts exchanged by the parties, and thus are not a measure of our exposure or of the cash requirements related to these contracts. As such, cash flows related to these contracts are typically not material. The amounts exchanged are calculated by reference to the notional amounts and by other terms of the contracts, such as exchange rates.

We use sensitivity analysis models to measure the impact of a hypothetical 10% adverse movement of foreign currency exchange rates against the U.S. dollar. For our foreign currency transaction risk, a hypothetical 10% adverse change in the foreign currency exchange rates for all our foreign currency positions would result in a \$7.2 million pre-tax loss for our net monetary assets denominated in currencies other than the respective entity's functional currency at December 31, 2020. For our foreign currency translation risk, a hypothetical 10% adverse change in the applicable average foreign currency exchange rates relative to the U.S. dollar in 2021 would negatively impact our pre-tax income by \$6.9 million.

There are certain limitations inherent in the sensitivity analyses presented, primarily due to the assumption that interest rates and exchange rates change instantaneously in an equally adverse fashion. In addition, the analyses are unable to reflect the complex market reactions that normally would arise from the market shifts modeled. While this is our best estimate of the impact of the various scenarios, these estimates should not be viewed as forecasts.

Commodity price risk. We are exposed to commodity price risk due to our forward contractual purchase commitments for raw materials. Our raw materials are primarily supplied by a portfolio of suppliers under long-term supply contracts and arrangements with various expiration dates. We are subject to future purchase commitments for these raw materials under minimum purchase contracts. Based on pricing as of December 31, 2020, a hypothetical 10.0% change in the market price for these raw materials would change our 2021 cost of goods sold by \$36.1 million.

Item 8. Financial Statements and Supplementary Data.

The financial statements are set forth herein commencing on page F-5 of this report.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

None.

Item 9A. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

An evaluation of the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15 under the Exchange Act) was carried out under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer. As of December 31, 2020, based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that these disclosure controls and procedures were effective.

Management's Annual Report on Internal Control over Financial Reporting

See Management's Annual Report on Internal Control over Financial Reporting on page F-2 of the audited consolidated financial statements provided under Item 8 of this Form 10-K.

Attestation Report of the Registered Public Accounting Firm

See Report of Independent Registered Public Accounting Firm on page F-3 of the audited consolidated financial statements provided under Item 8 of this Form 10-K.

Changes in Internal Control over Financial Reporting

There has been no change in our internal control over financial reporting that occurred during the three months ended December 31, 2020 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. Other Information.

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance.

Information in response to this item is incorporated by reference to our Proxy Statement relating to our 2021 Annual Meeting of Stockholders. The Proxy Statement will be filed with the SEC within 120 days after the end of the fiscal year covered by this Form 10-K pursuant to Regulation 14A under the Exchange Act.

Item 11. Executive Compensation.

Information in response to this item is incorporated by reference to our Proxy Statement relating to our 2021 Annual Meeting of Stockholders. The Proxy Statement will be filed with the SEC within 120 days after the end of the fiscal year covered by this Form 10-K pursuant to Regulation 14A under the Exchange Act.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

Information in response to this item is incorporated by reference to our Proxy Statement relating to our 2021 Annual Meeting of Stockholders. The Proxy Statement will be filed with the SEC within 120 days after the end of the fiscal year covered by this Form 10-K pursuant to Regulation 14A under the Exchange Act.

Item 13. Certain Relationships and Related Transactions, and Director Independence.

Information in response to this item is incorporated by reference to our Proxy Statement relating to our 2021 Annual Meeting of Stockholders. The Proxy Statement will be filed with the SEC within 120 days after the end of the fiscal year covered by this Form 10-K pursuant to Regulation 14A under the Exchange Act.

Item 14. Principal Accountant Fees and Services.

Information in response to this item is incorporated by reference to our Proxy Statement relating to our 2021 Annual Meeting of Stockholders. The Proxy Statement will be filed with the SEC within 120 days after the end of the fiscal year covered by this Form 10-K pursuant to Regulation 14A under the Exchange Act.

PART IV

Item 15. Exhibits and Financial Statement Schedules.

(a) 1. Financial Statements

The following financial statements are included in Item 8:

Kraton Corporation

- (i) The reports of KPMG LLP, Independent Registered Public Accounting Firm
- (ii) Consolidated Balance Sheets as of December 31, 2020 and 2019
- (iii) Consolidated Statements of Operations—years ended December 31, 2020, 2019, and 2018
- (iv) Consolidated Statements of Comprehensive Income (Loss)—years ended December 31, 2020, 2019, and 2018
- (v) Consolidated Statements of Changes in Equity—years ended December 31, 2020, 2019, and 2018
- (vi) Consolidated Statements of Cash Flows—years ended December 31, 2020, 2019, and 2018
- (vii) Notes to consolidated financial statements

2. Exhibits

The exhibits listed under Item 15(b) below are filed as part of, or incorporated by reference into, this report and are on file with us.

(b) Exhibits

Item 15 (b). Exhibits

The following is a list of all exhibits filed as a part of this Annual Report on Form 10-K, including those incorporated by reference.

<u>Exhibit No</u>	<u>Description of Exhibits</u>
<u>3.1</u>	Certificate of Incorporation of Kraton Performance Polymers, Inc.** (incorporated by reference to Exhibit 3.1 to Kraton Corporation's Registration Statement on Form S-3 filed with the SEC on August 25, 2015)
<u>3.2</u>	Certificate of Amendment to the Certificate of Incorporation of Kraton Performance Polymers, Inc.** (incorporated by reference to Exhibit 3.1 to Kraton Corporation's Current Report on Form 8-K filed with the SEC on September 14, 2016)
<u>3.3</u>	Second Amended and Restated Bylaws of Kraton Corporation (incorporated by reference to Exhibit 3.1 to Kraton Corporation's Current Report on Form 8-K filed with the SEC on February 12, 2020)
<u>4.1</u>	Specimen Stock Certificate of Kraton Corporation's Common Stock, par value \$0.01 per share (incorporated by reference to Exhibit 4.1 to Kraton Corporation's Current Report on Form 8-K filed with the SEC on September 14, 2016)
<u>4.2</u>	Indenture, dated as of December 21, 2020, among Kraton Polymers LLC and Kraton Polymers Capital Corporation, as Issuers, Kraton Corporation and certain of its wholly-owned domestic subsidiaries, as Guarantors and Wells Fargo Bank, National Association, as Trustee, relating to the 4.25% Senior Notes due 2025 (incorporated by reference to Exhibit 4.1 to Kraton Corporation's Current Report on Form 8-K filed with the SEC on December 21, 2020)
<u>4.3</u>	Form of Global Note for the 4.25% Senior Notes due 2025 (incorporated by reference to, and included in, Exhibit 4.1 to Kraton Corporation's Current Report on Form 8-K filed with the SEC on December 21, 2020)
<u>4.4</u>	Indenture, dated as of May 24, 2018, among Kraton Polymers LLC and Kraton Polymers Capital Corporation, as Issuers, Kraton Corporation and certain of its wholly-owned domestic subsidiaries, as Guarantors and Wells Fargo Bank, National Association, as Trustee, Deutsche Bank AG, London Branch, as Principal Paying Agent, and Deutsche Bank Luxembourg S.A., as Authenticating Agent, Registrar and Transfer Agent relating to the 5.25% Senior Notes due 2026 (incorporated by reference to Exhibit 4.1 to Kraton Corporation's Current Report on Form 8-K filed with the SEC on May 29, 2018)
<u>4.5</u>	Form of Global Note for the 5.25% Senior Notes due 2026 (incorporated by reference to, and included in, Exhibit 4.1 to Kraton Corporation's Current Report on Form 8-K filed with the SEC on May 29, 2018)

Exhibit No	Description of Exhibits
<u>4.6</u>	Description of the Kraton Corporation Securities Registered under Section 12 of the Exchange Act (incorporated by reference to Exhibit 4.6 to Kraton Corporation's Annual Report on Form 10-K filed with the SEC on February 27, 2020)
<u>10.1</u>	Guarantee Agreement by and between Kraton Polymers LLC and Taiwan Cooperative Bank, Ltd., dated as of July 17, 2014 (incorporated by reference to Exhibit 10.1 to Kraton Corporation's Quarterly Report on Form 10-Q filed with the SEC on July 31, 2014)
<u>10.2</u>	Credit and Guarantee Agreement, dated as of January 6, 2016, among Kraton Polymers LLC, as Borrower, Kraton Performance Polymers, Inc., as Parent, certain subsidiaries of Parent, as guarantors, the Lenders party thereto from time to time, Credit Suisse AG, Cayman Islands Branch, as Administrative Agent and as Collateral Agent and Nomura Securities International, Inc. and Deutsche Bank Securities Inc., as Syndication Agents (incorporated by reference to Exhibit 10.1 to Kraton Corporation's Current Report on Form 8-K filed with the SEC on January 7, 2016)
<u>10.3</u>	First Amendment to Credit and Guarantee Agreement, dated as of July 6, 2016, relating to the Credit and Guarantee Agreement, dated as of January 6, 2016, among Kraton Polymers LLC, as Borrower, and Credit Suisse AG, Cayman Islands Branch, as Administrative Agent (incorporated by reference to Exhibit 10.3 to Kraton Corporation's Annual Report on Form 10-K filed with the SEC on February 28, 2017)
<u>10.4</u>	Second Amendment to Credit and Guarantee Agreement, dated as of January 9, 2017, relating to the Credit and Guarantee Agreement dated as of January 6, 2016, among Kraton Polymers LLC, as Borrower, Kraton Performance Polymers, Inc., 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 and as Collateral Agent (incorporated by reference to Exhibit 10.1 to Kraton Corporation's Current Report on Form 8-K filed with the SEC on January 10, 2017)
<u>10.5</u>	Third Amendment to Credit and Guarantee Agreement, dated as of June 13, 2017, relating to the Credit and Guarantee Agreement dated as of January 6, 2016, among Kraton Polymers LLC, as Borrower, and Credit Suisse AG, Cayman Islands Branch, as Administrative Agent (incorporated by reference to Exhibit 10.1 to Kraton Corporation's Quarterly Report on Form 10-Q filed with the SEC on July 27, 2017)
<u>10.6</u>	Fourth Amendment to Credit and Guarantee Agreement, dated as of August 16, 2017, relating to the Credit and Guarantee Agreement dated as of January 6, 2016, 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)
<u>10.7</u>	Fifth Amendment to Credit and Guarantee Agreement, dated as of March 8, 2018, relating to the Credit and Guarantee Agreement dated as of January 6, 2016, 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 March 12, 2018)
<u>10.8</u>	SIXTH Amendment to Credit and Guarantee Agreement, dated as of May 24, 2018, relating to the Credit and Guarantee Agreement dated as of January 6, 2016, 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 May 29, 2018)
<u>10.9</u>	Seventh Amendment to Credit and Guarantee Agreement, dated as of May 24, 2018, relating to the Credit and Guarantee Agreement dated as of January 6, 2016, 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 10.2 to Kraton Corporation's Current Report on Form 8-K filed with the SEC on May 29, 2018)
<u>10.10</u>	Pledge and Security Agreement, dated as of January 6, 2016, among Kraton Polymers LLC, Kraton Performance Polymers, Inc., Kraton Polymers U.S. LLC, Elastomers Holdings LLC, Kraton Polymers Capital Corporation, Arizona Chemical Holdings Corporation, AZ Chem Intermediate Inc., AZ Chem US Holdings Inc., AZ Chem US Inc. and Arizona Chemical Company, LLC, as Grantors, and Credit Suisse AG, Cayman Islands Branch, as Collateral Agent (incorporated by reference to Exhibit 10.2 to Kraton Corporation's Current Report on Form 8-K filed with the SEC on January 7, 2016)

Exhibit No	Description of Exhibits
<u>10.11</u>	Second Amended and Restated Loan, Security and Guarantee Agreement, dated as of April 15, 2020, among Kraton Polymers U.S. LLC and Kraton Chemical, LLC, as U.S. Borrowers and Guarantors, Kraton Polymers Nederland B.V., as Initial Dutch Kraton Borrower, Kraton Corporation, as Parent, certain subsidiaries of Parent, as Guarantors, the financial institutions listed from time to time party thereto, as Lenders, and Bank of America, N.A., in its capacity as Administrative Agent, Collateral Agent and Security Trustee (incorporated by reference to Exhibit 10.1 to Kraton Corporation's Current Report on Form 8-K filed with the SEC on April 15, 2020)
<u>10.12</u>	First Amendment to Second Amended and Restated Loan, Security and Guarantee Agreement, dated as of December 3, 2020, by and among Kraton Polymers U.S. LLC and Kraton Chemical, LLC, as U.S. Borrowers and Guarantors, Kraton Polymers Nederland B.V., as Initial Dutch Kraton Borrower, Kraton Corporation, as Parent, certain subsidiaries of Parent, as Guarantors, the financial institutions from time to time party thereto, as Lenders, and Bank of America, N.A., in its capacity as Administrative Agent, Collateral Agent and Security Trustee (incorporated by reference to Exhibit 10.1 to Kraton Corporation's Current Report on Form 8-K filed with the SEC on December 4, 2020)
<u>10.13</u>	Shareholder Agreement of Kraton Formosa Polymers Corporation, dated as of February 27, 2013, by and between KP Investment BV and Formosa Petrochemical Corporation (incorporated by reference to Exhibit 10.3 to Kraton Corporation's Quarterly Report on Form 10-Q filed with the SEC on May 2, 2013)
<u>10.14</u>	Ground Lease, dated as of February 27, 2013, by and between Formosa Petrochemical Corporation and Kraton Formosa Polymers Corporation (Mailiao) (incorporated by reference to Exhibit 10.4 to Kraton Corporation's Quarterly Report on Form 10-Q filed with the SEC on May 2, 2013)
<u>10.15</u>	Contribution Agreement, dated as of February 28, 2001, between Shell Oil Company and Shell Elastomers (portions of this exhibit have been omitted pursuant to a request for confidential treatment) (incorporated by reference to Exhibit 10.44 to Amendment No. 1 to Kraton Corporation's Annual Report on Form 10-K/A filed with the SEC on October 28, 2011)
<u>10.16</u>	Contribution Agreement, dated as of February 28, 2001, between Shell Internationale Research Maatschappij B.V. and Kraton Polymers Research B.V. (portions of this exhibit have been omitted pursuant to a request for confidential treatment) (incorporated by reference to Exhibit 10.45 to Amendment No. 3 to Kraton Corporation's Annual Report on Form 10-K/A filed with the SEC on March 8, 2012)
<u>10.17</u>	Amended and Restated Belpre Facility Sharing and Operating Agreement, dated as of July 1, 1999, among Infineum USA LP, Shell Oil Company and Shell Elastomers LLC (portions of this exhibit have been omitted pursuant to a request for confidential treatment) (incorporated by reference to Exhibit 10.31 to Amendment No. 1 to Kraton Corporation's Annual Report on Form 10-K/A filed with the SEC on October 28, 2011)
<u>10.18</u>	Amendment No. 1 to Amended and Restated Belpre Facility Sharing and Operating Agreement, dated as of January 23, 2007 (incorporated by reference to Exhibit 10.69 to Amendment No. 2 to Kraton Corporation's Registration Statement on Form S-1/A filed with the SEC on November 20, 2009)
<u>10.19</u>	Amendment No. 2 to Amended and Restated Belpre Facility Sharing and Operating Agreement, dated as of January 1, 2009 (incorporated by reference to Exhibit 10.70 to Amendment No. 2 to Kraton Corporation's Registration Statement on Form S-1/A filed with the SEC on November 20, 2009)
<u>10.20</u>	Manufacturing Facility Lease, dated as of August 24, 2000, between Shell Chimie and Kravis (Berre-Kraton D) (incorporated by reference to Exhibit 10.47 to Kraton Polymers LLC's Registration Statement on Form S-4 filed with the SEC on April 1, 2005)
<u>10.21</u>	Manufacturing Facility Lease, dated as of August 24, 2000, between Shell Chimie and Kraton Polymers France SAS (Berre-Kraton G) (incorporated by reference to Exhibit 10.48 to Kraton Polymers LLC's Registration Statement on Form S-4 filed with the SEC on April 1, 2005)
<u>10.22</u>	Business Lease, dated as of March 31, 2000, between Elenac GmbH and Kraton Polymers GmbH (Wesseling) (portions of this exhibit have been omitted pursuant to a request for confidential treatment) (incorporated by reference to Exhibit 10.49 to Kraton Polymers LLC's Registration Statement on Form S-4 filed with the SEC on April 1, 2005)
<u>10.23</u>	Amendment to the Business Lease dated March 31, 2000 between Bassell Polyolefine GmbH (previously Elenac GmbH) and Kraton Polymers GmbH (Wesseling) (incorporated by reference to Exhibit 10.49(a) to Kraton Polymers LLC's Registration Statement on Form S-4 filed with the SEC on April 1, 2005)
<u>10.24</u>	Lease Agreement dated as of February 28, 2007 between International Paper Company and Arizona Chemical Company (Savannah) (incorporated by reference to Exhibit 10.17 to Kraton Corporation's Annual Report on Form 10-K filed with the SEC on February 24, 2016)

Exhibit No	Description of Exhibits
<u>10.25</u>	Oulu Land Lease Agreement dated effective as of 30 August 1996 between Enso Oy and Forchem Oy (Oulu)(incorporated by reference to Exhibit 10.18 to Kraton Corporation’s Annual Report on Form 10-K filed with the SEC on February 24, 2016)
<u>10.26</u>	Amendment for Land Lease Contract dated 15 February 2013 between Stora Enso Oyj and Arizona Chemical Oy (Oulu) (incorporated by reference to Exhibit 10.19 to Kraton Corporation’s Annual Report on Form 10-K filed with the SEC on February 24, 2016)
<u>10.27+</u>	Kraton Polymers U.S. LLC Benefits Restoration Plan, as amended and restated effective as of January 1, 2013 (incorporated by reference to Exhibit 10.1 to Kraton Corporation’s Quarterly Report on Form 10-Q filed with the SEC on November 1, 2012)
<u>10.28+</u>	Form of Letter to Participants in the Benefits Restoration Plan with respect to Death Benefit (incorporated by reference to Exhibit 10.21 to Kraton Corporation’s Annual Report on Form 10-K filed with the SEC on February 28, 2013)
<u>10.29+</u>	Kraton Polymers U.S. LLC Pension Benefit Restoration Plan as amended and restated December 10, 2013 (incorporated by reference to Exhibit 10.24 to Kraton Corporation’s Annual Report on Form 10-K filed with the SEC on February 27, 2014)
<u>10.30+</u>	Polymer Holdings LLC Executive Deferred Compensation Plan dated November 30, 2009 (incorporated by reference to Exhibit 10.52 to Amendment No. 3 to Kraton Corporation’s Form S-1/A filed with the SEC on December 2, 2009)
<u>10.31+</u>	Kraton Performance Polymers, Inc. 2009 Equity Incentive Plan (as amended and restated February 16, 2012) (incorporated by reference to Exhibit 10.24 to Kraton Corporation’s Annual Report on Form 10-K filed with the SEC on February 29, 2012)
<u>10.32+</u>	Kraton Corporation 2016 Equity and Cash Incentive Plan (incorporated by reference to Exhibit 10.2 to Kraton Corporation’s Quarterly Report on Form 10-Q filed with the SEC on April 27, 2017)
<u>10.33+</u>	First Amendment to Kraton Corporation 2016 Equity and Cash Incentive Plan (incorporated by reference to Exhibit 10.1 to Kraton Corporation’s Current Report on Form 8-K filed with the SEC on May 25, 2018)
<u>10.34+</u>	Kraton Corporation 2016 Amended and Restated Equity and Cash Incentive Plan (incorporated by reference to Exhibit 10.1 to Kraton Corporation’s Current Report on Form 8-K filed with the SEC on May 26, 2020)
<u>10.35+</u>	Kraton Corporation 2019 Equity Inducement Plan (incorporated by reference to Exhibit 4.2 to Kraton Corporation’s Form S-8 filed with the SEC on April 17, 2019)
<u>10.36+</u>	Form of Kraton Corporation Restricted Stock Unit Inducement Award Agreement under the Kraton Corporation 2019 Equity Inducement Plan (incorporated by reference to Exhibit 4.3 to Kraton Corporation’s Form S-8 filed with the SEC on April 17, 2019)
<u>10.37+</u>	Form of Kraton Corporation Restricted Stock Performance Unit Inducement Award Agreement under the Kraton Corporation 2019 Equity Inducement Plan (incorporated by reference to Exhibit 4.4 to Kraton Corporation’s Form S-8 filed with the SEC on April 17, 2019)
<u>10.38+</u>	Form of Kraton Corporation Restricted Stock Unit Inducement Award Agreement (1 year vest) under the Kraton Corporation 2019 Equity Inducement Plan (incorporated by reference to Exhibit 10.1 to Kraton Corporation’s Form 10-Q filed with the SEC on July 25, 2019)
<u>10.39+</u>	Form of Kraton Corporation Restricted Stock Unit Award Agreement under the Kraton Corporation 2016 Equity and Cash Incentive Plan (incorporated by reference to Exhibit 10.34 to Kraton Corporation’s Annual Report on Form 10-K filed with the SEC on February 28, 2019)
<u>10.40+</u>	Form of Kraton Corporation Restricted Stock Performance Unit Award Agreement under the Kraton Corporation 2016 Equity and Cash Incentive Plan (incorporated by reference to Exhibit 10.35 to Kraton Corporation’s Annual Report on Form 10-K filed with the SEC on February 28, 2019)
<u>10.41+*</u>	Form of Kraton Corporation Restricted Stock Performance Unit Award Agreement (2020) under the Kraton Corporation Amended and Restated 2016 Equity and Cash Incentive Plan.
<u>10.42+</u>	Form of Kraton Performance Polymers, Inc. Stock Option Grant Agreement under the Kraton Performance Polymers, Inc. 2009 Equity Incentive Plan (incorporated by reference to Exhibit 10.26 to Kraton Corporation’s Annual Report on Form 10-K filed with the SEC on February 29, 2012)
<u>10.43+</u>	Form of Kraton Performance Polymers, Inc. Stock Option Award Agreement under the Kraton Performance Polymers, Inc. 2009 Equity Incentive Plan (incorporated by reference to Exhibit 10.30 to Kraton Corporation’s Annual Report on Form 10-K filed with the SEC on February 28, 2013)

Exhibit No	Description of Exhibits
<u>10.44+</u>	Form of Kraton Performance Polymers, Inc. Nonqualified Stock Option Award Agreement under the Kraton Performance Polymers, Inc. 2009 Equity Incentive Plan (incorporated by reference to Exhibit 10.32 to Kraton Corporation's Annual Report on Form 10-K filed with the SEC on February 27, 2014)
<u>10.45+</u>	Summary of Terms of Kraton Corporation Cash Incentive Plan for 2021 (incorporated by reference to Kraton Corporation's Current Reports on Form 8-K filed with the SEC on February 8, 2021)
<u>10.46+</u>	Kraton Corporation Executive Severance Program (as amended and restated September 11, 2020) (incorporated by reference to Exhibit 10.1 to Kraton Corporation's Quarterly Report on Form 10-Q filed with the SEC on October 29, 2020)
<u>10.47+</u>	Form of Employee Confidentiality and Non-Competition Agreement entered into by executives participating in the Executive Severance Program (incorporated by reference to Exhibit 10.31 to Kraton Corporation's Annual Report on Form 10-K filed with the SEC on February 29, 2012)
<u>10.48+*</u>	Form of Employee Confidentiality and Non-Competition Agreement entered into by executives participating in the Executive Severance Program (subsequent to May 2018)
<u>10.49+</u>	Form of Indemnity Agreement (incorporated by reference to Exhibit 10.1 to Kraton Corporation's Current Report on Form 8-K filed with the SEC on December 16, 2011)
<u>10.50+</u>	Form of Indemnification Agreement (incorporated by reference to Exhibit 10.3 to Kraton Corporation's Quarterly Report on Form 10-Q filed with the SEC on July 31, 2020)
<u>10.51+</u>	Executive Compensation Recoupment Policy (adopted September 11, 2013) (incorporated by reference to Exhibit 10.1 to Kraton Corporation's Current Report on Form 8-K filed with the SEC on September 16, 2013)
<u>21.1*</u>	List of Significant Subsidiaries
<u>23.1*</u>	Consent of Independent Registered Public Accounting Firm
<u>31.1*</u>	Certification by CEO pursuant to Rule 13a-14(a) or 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
<u>31.2*</u>	Certification by CFO pursuant to Rule 13a-14(a) or 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
<u>32.1*</u>	Certification by CEO and CFO pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101*	The following materials from Kraton Corporation's Annual Report on Form 10-K for the year ended December 31, 2020, formatted in Inline XBRL (eXtensible Business Reporting Language): (i) Consolidated Balance Sheets as of December 31, 2020 and 2019, (ii) Consolidated Statements of Operations for the years ended December 31, 2020, 2019, and 2018, (iii) Consolidated Statements of Comprehensive Income (Loss) for the years ended December 31, 2020, 2019, and 2018, (iv) Consolidated Statements of Changes in Equity for the years ended December 31, 2020, 2019, and 2018, (v) Consolidated Statements of Cash Flows for the years ended December 31, 2020, 2019, and 2018, and (vi) Notes to Consolidated Financial Statements.
104*	The cover page from Kraton Corporation Annual Report on Form 10-K for the period ended December 31, 2020, formatted in Inline XBRL (eXtensible Business Reporting Language)
+	Denotes management contract or compensatory plan or arrangement.
*	Filed herewith.
**	On September 14, 2016, Kraton Performance Polymers, Inc. changed its corporate name to Kraton Corporation. Accordingly, filings made prior to such date were made under the name Kraton Performance Polymers, Inc.

(c). Financial Statement Schedule

See Schedule II.

Item 16. Form 10-K Summary

None.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

Date: February 26, 2021

Kraton Corporation

/s/ KEVIN M. FOGARTY

Kevin M. Fogarty
President and Chief Executive Officer

POWER OF ATTORNEY

Each person whose signature appears below constitutes and appoints James L. Simmons, his or her true and lawful attorney-in-fact and agent, with full power of substitution and resubstitution, for him or her and in his or her name, place and stead, in any and all capacities, to sign any and all amendments to this Annual Report on Form 10-K, and to file the same, with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorney-in-fact and agent, full power and authority to do and perform each and every act and thing requisite and necessary to be done, as fully to all intents and purposes as he or she might or could do in person, hereby ratifying and confirming that said attorney-in-fact and agent, or his or her substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirement of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities indicated and on February 26, 2021.

Signature	Title
/s/ KEVIN M. FOGARTY Kevin M. Fogarty	President, Chief Executive Officer and a Director (Principal Executive Officer)
/s/ ATANAS H. ATANASOV Atanas H. Atanasov	Executive Vice President, Chief Financial Officer, and Treasurer (Principal Financial Officer)
/s/ CHRISTOPHER B. GINGRICH Christopher B. Gingrich	Chief Accounting Officer (Principal Accounting Officer)
/s/ SHELLEY J. BAUSCH Shelley J. Bausch	Director
/s/ MARK A. BLINN Mark A. Blinn	Director
/s/ ANNA C. CATALANO Anna C. Catalano	Director
/s/ DOMINIQUE FOURNIER Dominique Fournier	Director
/s/ JOHN J. GALLAGHER, III John J. Gallagher, III	Director
/s/ DAN F. SMITH Dan F. Smith	Director and Chairman
/s/ KAREN A. TWITCHELL Karen A. Twitchell	Director
/s/ BILLIE I. WILLIAMSON Billie I. Williamson	Director

KRATON CORPORATION
INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

	<u>Page</u>
Audited Consolidated Financial Statements	
<u>Management's Annual Report on Internal Control Over Financial Reporting</u>	<u>F-2</u>
<u>The reports of KPMG LLP, Independent Registered Public Accounting Firm</u>	<u>F-3</u>
<u>Consolidated Balance Sheets as of December 31, 2020 and 2019</u>	<u>F-6</u>
<u>Consolidated Statements of Operations for Years Ended December 31, 2020, 2019, and 2018</u>	<u>F-8</u>
<u>Consolidated Statements of Comprehensive Income (Loss) for Years Ended December 31, 2020, 2019, and 2018</u>	<u>F-9</u>
<u>Consolidated Statements of Changes in Equity for Years Ended December 31, 2020, 2019, and 2018</u>	<u>F-10</u>
<u>Consolidated Statements of Cash Flows for Years Ended December 31, 2020, 2019, and 2018</u>	<u>F-11</u>
<u>Notes to Consolidated Financial Statements</u>	<u>F-13</u>

Management's Annual Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Rules 13a-15(f) and 15d-15(f) of the Securities Exchange Act of 1934, as amended. Internal control over financial reporting, no matter how well designed, has inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. Further, because of changes in conditions, the effectiveness of internal control over financial reporting may vary over time.

Under the supervision and with the participation of our management, including our chief executive officer and chief financial officer, we conducted an evaluation to assess the effectiveness of our internal control over financial reporting as of December 31, 2020 based upon criteria set forth in the *Internal Control—Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our assessment, we believe that, as of December 31, 2020, our internal control over financial reporting is effective.

The effectiveness of our internal control over financial reporting as of December 31, 2020 has been audited by KPMG LLP, an independent registered public accounting firm, as stated in their report that is included herein.

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders
Kraton Corporation:

Opinion on Internal Control Over Financial Reporting

We have audited Kraton Corporation and subsidiaries' (the Company) internal control over financial reporting as of December 31, 2020, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2020, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheets of the Company as of December 31, 2020 and 2019, the related consolidated statements of operations, comprehensive income (loss), changes in equity, and cash flows for each of the years in the three-year period ended December 31, 2020, and the related notes and financial statement schedule II - Valuation and Qualifying Accounts and Reserves (collectively, the consolidated financial statements), and our report dated February 26, 2021 expressed an unqualified opinion on those consolidated financial statements.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Annual Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control Over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

(signed) KPMG LLP

Houston, Texas
February 26, 2021

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders
Kraton Corporation:

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of Kraton Corporation and subsidiaries (the Company) of December 31, 2020 and 2019, the related consolidated statements of operations, comprehensive income (loss), changes in equity, and cash flows for each of the years in the three-year period ended December 31, 2020, and the related notes and financial statement schedule II - Valuation and Qualifying Accounts and Reserves (collectively, the consolidated financial statements). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2020 and 2019, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2020, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2020, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report dated February 26, 2021 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

Change in Accounting Principle

As discussed in Note 2 to the consolidated financial statements, the Company has changed its method of accounting for leases as of January 1, 2019 due to the adoption of Accounting Standards Update (ASU) 2016-02 and all related amendments, which established Accounting Standards Codification (ASC) Topic 842, *Leases*.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matters

The critical audit matters communicated below are matters arising from the current period audit of the consolidated financial statements that were communicated or required to be communicated to the audit committee and that: (1) relate to accounts or disclosures that are material to the consolidated financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matters below, providing separate opinions on the critical audit matters or on the accounts or disclosures to which they relate.

Goodwill impairment analysis

As discussed in Notes 1 and 14 to the consolidated financial statements, the Company performs goodwill impairment testing at the reporting unit level on an annual basis and whenever events or circumstances indicate that the carrying value of a reporting unit likely exceeds its fair value. The Company's goodwill balance as of December 31, 2020 was \$375.1 million, all of which related to the Chemical reporting unit resulting from the Arizona Chemical acquisition in 2016. The Company recorded an impairment charge of \$400.0 million during the year ended December 31, 2020.

We identified the evaluation of the goodwill impairment analysis for the Chemical reporting unit as a critical audit matter. The estimated fair value of the Chemical reporting unit was derived from assumptions used in estimating the future cash flows resulting in the application of a high degree of subjective auditor judgment. Specifically, the revenue growth rates and discount rate assumptions used to estimate the fair value of the reporting unit were challenging to evaluate due to their

subjectivity and because changes could have had a significant effect on the Company's assessment of the carrying value of the reporting unit and the resulting impairment charge. Specialized skills were required to evaluate the Company's determination of the discount rate assumption.

The following are the primary procedures we performed to address this critical audit matter. We evaluated the design and tested the operating effectiveness of certain internal controls over the Company's determination of the fair value of the Chemical reporting unit in its assessment of goodwill impairment. This included controls related to the development of the revenue growth rates and discount rate assumptions. We evaluated the Company's forecasted revenue growth rates for the Chemical reporting unit by comparing the forecasted growth rates with historical results. Additionally, the Company's forecasted revenue growth rates were compared to the forecasted growth rates in certain industry reports. We compared the Company's historical revenue forecasts to actual results to assess the Company's ability to accurately forecast. In addition, we involved valuation professionals with specialized skills and knowledge, who assisted in:

- comparing the discount rate used in the valuation, against a discount rate range that was independently developed using publicly available market data for comparable entities
- comparing the Company's fair value estimate to an independent estimate of the Chemical reporting unit's fair value using an independently developed discount rate.

Fair value of transferred intellectual property rights

As discussed in Note 11 to the consolidated financial statements, the Company completed an intercompany transfer of certain intellectual property rights to its Dutch subsidiary. The transfer did not result in a taxable gain; however, the Company's Dutch subsidiary received a step-up in tax basis based on the fair value of the transferred intellectual property rights. The Company recorded a one-time benefit of \$65.8 million in the year ended December 31, 2020 for the recognition of a deferred tax asset in the Netherlands.

We identified the assessment of the measurement of fair value of the transferred intellectual property rights that gave rise to the deferred tax asset as a critical audit matter. The estimated fair value of the transferred intellectual property rights was derived from assumptions used in estimating the future cash flows resulting in the application of a high degree of subjective auditor judgment. Specifically, the revenue growth rates, discount rate, useful life and contribution margin assumptions used to estimate the fair value of the intellectual property rights were challenging to evaluate due to their subjectivity and as changes to those assumptions could have significantly affected the Company's measurement of the associated deferred tax asset. Specialized skills were required to evaluate the Company's determination of the discount rate, useful life, and contribution margin assumptions.

The following are the primary procedures we performed to address this critical audit matter. We evaluated the design and tested the operating effectiveness of certain internal controls over the Company's process to measure the fair value of the transferred intellectual property rights. This included controls related to the development of the revenue growth rates, discount rate, useful life, and contribution margin assumptions. We evaluated the Company's forecasted revenue growth rates for the transferred intellectual property rights, by comparing the forecasted revenue growth rates with historical results and certain industry reports. We compared the Company's historical revenue forecasts to actual results to assess the Company's ability to accurately forecast. In addition, we involved valuation professionals with specialized skills and knowledge, who assisted in:

- comparing the discount rate used in the valuation against a discount rate range that was independently developed using publicly available market data for comparable entities
- comparing the useful life used in the valuation to relevant industry data
- identifying routine contribution margins earned by independent companies in the industry and comparing whether the implied contribution margin of the independent companies' intellectual property rights agreed with the Company's estimates
- comparing the Company's fair value estimate to an independent estimate of the intellectual property rights' fair value using the independently developed discount rate, useful life and contribution margins.

(signed) KPMG LLP

We have served as the Company's auditor since 2002.

Houston, Texas
February 26, 2021

KRATON CORPORATION
CONSOLIDATED BALANCE SHEETS
(In thousands, except par value)

	<u>December 31, 2020</u>	<u>December 31, 2019</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 85,901	\$ 35,033
Receivables, net of allowances of \$598 and \$434	180,258	169,603
Inventories of products	318,885	332,457
Inventories of materials and supplies	34,164	32,211
Prepaid expense	11,844	6,991
Other current assets	15,338	22,385
Current assets held for sale	—	51,356
Total current assets	<u>646,390</u>	<u>650,036</u>
Property, plant, and equipment, less accumulated depreciation of \$732,279 and \$639,197	942,703	925,940
Goodwill	375,061	772,418
Intangible assets, less accumulated amortization of \$330,070 and \$285,819	294,734	325,877
Investment in unconsolidated joint venture	12,723	11,971
Deferred income taxes	83,534	8,863
Long-term operating lease assets, net	84,042	85,003
Other long-term assets	21,770	25,219
Long-term assets held for sale	—	27,058
Total assets	<u>\$ 2,460,957</u>	<u>\$ 2,832,385</u>
LIABILITIES AND EQUITY		
Current liabilities:		
Current portion of long-term debt	\$ 72,347	\$ 53,139
Accounts payable-trade	176,229	168,541
Other payables and accruals	167,364	112,645
Due to related party	17,147	17,470
Current liabilities held for sale	—	14,849
Total current liabilities	<u>433,087</u>	<u>366,644</u>
Long-term debt, net of current portion	865,516	1,311,486
Deferred income taxes	125,559	125,240
Long-term operating lease liabilities	67,898	66,624
Deferred income	151,329	11,049
Other long-term liabilities	168,566	161,911
Long-term liabilities held for sale	—	3
Total liabilities	<u>1,811,955</u>	<u>2,042,957</u>
Commitments and contingencies (note 12)		
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; 31,873 shares issued and outstanding at December 31, 2020; 31,751 shares issued and outstanding at December 31, 2019	319	318
Additional paid in capital	401,445	392,208

See Notes to Consolidated Financial Statements

Retained earnings	240,464	464,712
Accumulated other comprehensive loss	(37,865)	(105,795)
Total Kraton stockholders' equity	604,363	751,443
Noncontrolling interest	44,639	37,985
Total equity	649,002	789,428
Total liabilities and equity	\$ 2,460,957	\$ 2,832,385

KRATON CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except per share data)

	Years Ended December 31,		
	2020	2019	2018
Revenue	\$ 1,563,150	\$ 1,804,436	\$ 2,011,675
Cost of goods sold	1,165,279	1,390,007	1,431,069
Gross profit	<u>397,871</u>	<u>414,429</u>	<u>580,606</u>
Operating expenses:			
Research and development	40,743	41,073	41,296
Selling, general, and administrative	161,944	149,800	153,897
Depreciation and amortization	126,022	136,171	141,410
Impairment of goodwill	400,000	—	—
Gain on insurance proceeds	—	(32,850)	(8,900)
Loss on disposal of fixed assets	750	773	2,169
Operating income (loss)	<u>(331,588)</u>	<u>119,462</u>	<u>250,734</u>
Other income (expense)	995	3,339	(3,472)
Disposition and exit of business activities	175,189	—	—
Loss on extinguishment of debt	(40,843)	(3,521)	(79,866)
Earnings of unconsolidated joint venture	457	506	471
Interest expense, net	<u>(57,930)</u>	<u>(75,782)</u>	<u>(93,772)</u>
Income (loss) before income taxes	<u>(253,720)</u>	<u>44,004</u>	<u>74,095</u>
Income tax benefit (expense)	32,034	11,813	(3,574)
Consolidated net income (loss)	<u>(221,686)</u>	<u>55,817</u>	<u>70,521</u>
Net income attributable to noncontrolling interest	<u>(3,916)</u>	<u>(4,512)</u>	<u>(3,506)</u>
Net income (loss) attributable to Kraton	<u>\$ (225,602)</u>	<u>\$ 51,305</u>	<u>\$ 67,015</u>
Earnings (loss) per common share:			
Basic	\$ (7.08)	\$ 1.61	\$ 2.10
Diluted	\$ (7.08)	\$ 1.60	\$ 2.08
Weighted average common shares outstanding:			
Basic	31,746	31,581	31,416
Diluted	31,746	31,881	31,789

See Notes to Consolidated Financial Statements

KRATON CORPORATION
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(In thousands)

	Years Ended December 31,		
	2020	2019	2018
Net income (loss) attributable to Kraton	\$ (225,602)	\$ 51,305	\$ 67,015
Other comprehensive income (loss):			
Foreign currency translation adjustments, net of tax of \$0	36,431	(5,296)	(14,439)
Reclassification of foreign currency translation adjustments from disposition and exit of business activities, net of tax of \$0	66,533	—	—
Unrealized gain (loss) on cash flow hedges, net of tax expense of \$458, benefit of \$1,165, and expense of \$979, respectively	1,387	(6,311)	1,368
Reclassification of (gain) loss on cash flow hedge, net of tax benefit of \$293 and expense of \$587, respectively	1,002	—	(1,996)
Unrealized gain (loss) on net investment hedge, net of tax benefit of \$6,865, expense of \$1,379 and \$2,378, respectively	(25,881)	7,471	8,079
Reclassification of gain on net investment hedge, net of tax expense of \$0	(899)	—	—
(Increase) decrease in benefit plans liability, net of tax benefit of \$3,702 and \$2,117, and expense of \$3,202, respectively	(10,643)	(9,960)	13,584
Other comprehensive income (loss), net of tax	67,930	(14,096)	6,596
Comprehensive income (loss) attributable to Kraton	(157,672)	37,209	73,611
Comprehensive income attributable to noncontrolling interest	6,654	5,524	2,423
Consolidated comprehensive income (loss)	<u>\$ (151,018)</u>	<u>\$ 42,733</u>	<u>\$ 76,034</u>

See Notes to Consolidated Financial Statements

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

	Common Stock	Additional Paid in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Kraton Equity	Noncontrolling Interest	Total Equity
Balance at January 1, 2018	\$ 316	\$ 377,957	\$ 356,503	\$ (98,295)	\$ 636,481	\$ 30,038	\$666,519
Net income	—	—	67,015	—	67,015	3,506	70,521
Other comprehensive income (loss)	—	—	—	6,596	6,596	(1,083)	5,513
Cumulative effect adjustment upon adoption of ASU 2016-09	—	—	—	—	—	—	—
Retired treasury stock from employee tax withholdings	(2)	(3,266)	(2,921)	—	(6,189)	—	(6,189)
Exercise of stock options	2	3,131	—	—	3,133	—	3,133
Non-cash compensation related to equity awards	3	8,099	—	—	8,102	—	8,102
Balance at December 31, 2018	\$ 319	\$ 385,921	\$ 420,597	\$ (91,699)	\$ 715,138	\$ 32,461	\$747,599
Net income	—	—	51,305	—	51,305	4,512	55,817
Other comprehensive income (loss)	—	—	—	(14,096)	(14,096)	1,012	(13,084)
Retired treasury stock from employee tax withholdings	—	(1,431)	(1,390)	—	(2,821)	—	(2,821)
Canceled stock from share repurchases	(3)	(4,197)	(5,800)	—	(10,000)	—	(10,000)
Exercise of stock options	1	2,423	—	—	2,424	—	2,424
Non-cash compensation related to equity awards	1	9,492	—	—	9,493	—	9,493
Balance at December 31, 2019	\$ 318	\$ 392,208	\$ 464,712	\$ (105,795)	\$ 751,443	\$ 37,985	\$789,428
Net income (loss)	—	—	(225,602)	—	(225,602)	3,916	(221,686)
Other comprehensive income	—	—	—	67,930	67,930	2,738	70,668
Retired treasury stock from employee tax withholdings	—	(2,201)	1,354	—	(847)	—	(847)
Exercise of stock options	—	78	—	—	78	—	78
Non-cash compensation related to equity awards	1	11,360	—	—	11,361	—	11,361
Balance at December 31, 2020	\$ 319	\$ 401,445	\$ 240,464	\$ (37,865)	\$ 604,363	\$ 44,639	\$649,002

See Notes to Consolidated Financial Statements

KRATON CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

	Years Ended December 31,		
	2020	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES			
Consolidated net income (loss)	\$ (221,686)	\$ 55,817	\$ 70,521
Adjustments to reconcile consolidated net income (loss) to net cash provided by operating activities:			
Depreciation and amortization	126,022	136,171	141,410
Lease amortization	24,488	23,093	—
Amortization of debt premium and original issue discount	148	1,064	2,202
Amortization of debt issuance costs	3,045	4,654	5,771
Amortization of deferred income	(20,054)	—	—
Loss on disposal of property, plant, and equipment	750	773	2,169
Disposition and exit of business activities	(175,189)	—	—
Loss on extinguishment of debt	40,843	3,521	79,866
Impairment of goodwill	400,000	—	—
(Earnings) loss from unconsolidated joint venture, net of dividends received	50	(62)	74
Deferred income tax benefit	(56,114)	(159)	(26,487)
Release of uncertain tax positions	(2,445)	(18,309)	—
Gain on insurance proceeds for capital expenditures	—	(3,948)	—
Share-based compensation	11,361	9,493	8,102
Decrease (increase) in:			
Accounts receivable	(563)	5,848	(7,841)
Inventories of products, materials, and supplies	18,234	46,533	(58,077)
Other assets	483	10,986	12,304
Increase (decrease) in:			
Accounts payable-trade	352	(3,472)	20,271
Other payables and accruals	5,595	(20,018)	(18,693)
Other long-term liabilities	(2,900)	(13,401)	13,742
Due to related party	(1,089)	(3,644)	1,245
Net cash provided by operating activities	<u>151,331</u>	<u>234,940</u>	<u>246,579</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Kraton purchase of property, plant, and equipment	(73,893)	(103,688)	(100,122)
KFPC purchase of property, plant, and equipment	(4,132)	(965)	(2,746)
Purchase of software and other intangibles	(7,943)	(8,019)	(8,229)
Insurance proceeds for capital expenditures	—	3,948	—
Cash proceeds from disposition and exit of business activities	510,500	—	—
Net cash provided by (used in) investing activities	<u>424,532</u>	<u>(108,724)</u>	<u>(111,097)</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from debt	477,000	57,941	732,540
Repayments of debt	(967,967)	(198,053)	(828,747)
KFPC proceeds from debt	71,949	34,240	24,918
KFPC repayments of debt	(90,577)	(59,700)	(52,947)
Capital lease payments	(179)	(169)	(902)
Purchase of treasury stock	(847)	(12,821)	(6,189)

See Notes to Consolidated Financial Statements

Proceeds from the exercise of stock options	78	2,424	3,133
Settlement of interest rate swap	(1,295)	—	2,584
Debt issuance costs	(9,095)	—	(11,113)
Net cash used in financing activities	(520,933)	(176,138)	(136,723)
Effect of exchange rate differences on cash	(4,062)	(936)	(1,920)
Net increase (decrease) in cash and cash equivalents	50,868	(50,858)	(3,161)
Cash and cash equivalents, beginning of period	35,033	85,891	89,052
Cash and cash equivalents, end of period	<u>\$ 85,901</u>	<u>\$ 35,033</u>	<u>\$ 85,891</u>
Supplemental disclosures during the period:			
Cash paid for income taxes, net of refunds received	\$ 6,917	\$ 7,804	\$ 4,715
Cash paid for interest, net of capitalized interest	\$ 66,757	\$ 56,407	\$ 106,838
Capitalized interest	\$ 3,099	\$ 3,625	\$ 3,882
Supplemental non-cash disclosures increase (decrease) during the period:			
Property, plant, and equipment accruals	\$ (9,785)	\$ 2,277	\$ (1,891)
Operating leases	\$ 19,928	\$ 105,308	\$ —

KRATON CORPORATION
Notes to Consolidated Financial Statements
INDEX

	<u>PAGE</u>
<u>1. Description of Business, Basis of Presentation, and Significant Accounting Policies</u>	<u>F-14</u>
<u>2. New Accounting Pronouncements</u>	<u>F-19</u>
<u>3. Revenue Recognition</u>	<u>F-20</u>
<u>4. Disposition and Exit of Business Activities</u>	<u>F-21</u>
<u>5. Assets Held for Sale</u>	<u>F-21</u>
<u>6. Share-Based Compensation</u>	<u>F-23</u>
<u>7. Detail of Certain Balance Sheet Accounts</u>	<u>F-26</u>
<u>8. Earnings per Share (“EPS”)</u>	<u>F-28</u>
<u>9. Long-Term Debt</u>	<u>F-30</u>
<u>10. Fair Value Measurements, Financial Instruments, and Credit Risk</u>	<u>F-32</u>
<u>11. Income Taxes</u>	<u>F-35</u>
<u>12. Commitments and Contingencies</u>	<u>F-37</u>
<u>13. Employee Benefits</u>	<u>F-40</u>
<u>14. Industry Segment and Foreign Operations</u>	<u>F-48</u>
<u>15. Related Party Transactions</u>	<u>F-51</u>
<u>16. Variable Interest Entity</u>	<u>F-52</u>
<u>17. Selected Quarterly Financial Data (Unaudited)</u>	<u>F-53</u>
<u>18. Subsequent Events</u>	<u>F-53</u>

1. Description of Business, Basis of Presentation and Significant Accounting Policies

Description of Business. We are a leading global specialty chemicals company that manufactures styrenic block copolymers (“SBCs”), specialty polymers, and high-value performance products primarily derived from pine wood pulping co-products. Our operations are managed through two operating segments: (i) Polymer segment and (ii) Chemical segment. Operating results for Arizona Chemical are included in the accompanying consolidated financial statements since the date of acquisition.

Basis of Presentation. The accompanying consolidated financial statements 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.

Significant Accounting Policies. These financial statements reflect all normal recurring adjustments that are, in the opinion of management, necessary to fairly present our results of operations and financial position.

Use of Estimates. The preparation of these consolidated financial statements in conformity with U.S. generally accepted accounting principles (“U.S. GAAP”) 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 consolidated financial statements and the reported amounts of revenue 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;
- allowances for doubtful accounts and sales returns;
- valuation of goodwill;
- the valuation of derivatives, deferred taxes, property, plant and equipment, inventory, share-based compensation; and deferred income; and
- liabilities for employee benefit obligations, environmental matters, asset retirement obligations, income tax uncertainties, and other contingencies.

Cash and Cash Equivalents. It is our policy to invest our excess cash in investment instruments whose value is not subject to market fluctuations, such as bank deposits or certificates of deposit. Other permitted investments include commercial paper of major U.S. corporations with ratings of A1 by Standard & Poor’s Ratings Group or P1 by Moody’s Investor Services, Inc., loan participations of major U.S. corporations with a short term credit rating of A1/P1 and direct obligations of the U.S. government or its agencies. We consider all investments having a remaining maturity, at the time of purchase, of three months or less to be cash equivalents.

Receivables. Receivables are recorded at the invoiced amount once the performance obligation has been met and do not bear interest. The allowance for doubtful accounts represents our best estimate of the amount of probable credit losses in our existing receivables and is determined based on our assessment of the credit worthiness of individual customers, historical write-off experience, and global economic data. We review the allowance for doubtful accounts quarterly. Account balances are charged off against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote. We do not have significant off-balance sheet credit exposure related to our customers. See Note 3 *Revenue Recognition* to the consolidated financial statements.

Inventories of Products. Inventory values include all costs directly associated with manufacturing products and are stated at the lower of cost or net realizable value, primarily determined on a first-in, first-out basis. We evaluate the carrying cost of our inventory on a quarterly basis for this purpose. If the cost of the inventories exceeds their net realizable value, provisions are made for the difference between the cost and the net realizable value. See Note 7 *Detail of Certain Balance Sheet Accounts* to the consolidated financial statements.

Derivative Instruments and Hedging Activities. We account for derivatives and hedging activities in accordance with ASC 815, *Derivatives and Hedging*, which requires entities to recognize all derivative instruments as either assets or liabilities in the balance sheet at their respective fair values. For all hedging relationships that qualify as derivatives under ASC 815, we formally document the hedging relationship and our risk-management objective and strategy for undertaking the hedge, the hedging instrument, the hedged transaction, the nature of the risk being hedged, how the hedging instrument’s effectiveness in offsetting the hedged risk will be assessed prospectively and retrospectively, and a description of the method used to measure ineffectiveness.

For derivative instruments that are designated and qualify as part of a cash flow hedging relationship, the effective portion of the gain or loss on the derivative is reported as a component of other comprehensive income (loss) and reclassified

into earnings in the same period or periods during which the hedged transaction affects earnings. Gains and losses on the derivative representing either hedge ineffectiveness or hedge components excluded from the assessment of effectiveness are recognized in current earnings.

We designate net investment hedges as economic hedges of the certain net investment in foreign subsidiaries. The gain or loss on such hedging derivative instruments (or the foreign currency transaction gain or loss on the nonderivative hedging instrument) that is designated as, and is effective as, an economic hedge of the net investment in a foreign subsidiary is reported in the same manner as a translation adjustment to the extent it is effective. Any hedge ineffectiveness is recognized in earnings during the period incurred.

We discontinue hedge accounting prospectively when we determine that the derivative is no longer effective, the derivative expires or is sold, terminated, or exercised, or the hedge is de-designated. In all situations in which hedge accounting is discontinued and the derivative remains outstanding, we continue to carry the derivative at its fair value on the balance sheet and recognize any subsequent changes in its fair value in earnings. When it is probable that a forecasted transaction will not occur, we discontinue hedge accounting and recognize immediately in earnings gains and losses that were accumulated in other comprehensive income (loss) related to the hedging relationship. See Note 10 *Fair Value Measurements, Financial Instruments, and Credit Risk* to the consolidated financial statements.

Property, Plant, and Equipment. Property, plant, and equipment are stated at cost, net of accumulated depreciation. Major renewals and improvements which extend the useful lives of equipment are capitalized. Repair and maintenance costs are expensed as incurred. Disposals are removed at carrying cost less accumulated depreciation with any resulting gain or loss reflected in earnings. We capitalize interest costs which are incurred as part of the cost of constructing major facilities and equipment. See Note 14 *Industry Segment and Foreign Operations* to the consolidated financial statements. Depreciation is recognized using the straight-line method over the following estimated useful lives:

Machinery and equipment	20 years
Building and land improvements	20 years
Manufacturing control equipment	10 years
Office equipment	5 years
Research equipment and facilities	5 years
Vehicles	5 years
Computer hardware and information systems	3 years

Major Maintenance Activities. Major maintenance is expensed as incurred.

Goodwill. We record goodwill when the purchase price of an acquired business exceeds the fair value of the net identifiable assets acquired. Goodwill is allocated to the reporting unit level based on the estimated fair value at the date of acquisition. Goodwill was recorded as a result of the Arizona Chemical Acquisition and is recorded in the Chemical operating segment.

Goodwill is tested for impairment at the reporting unit level annually or more frequently as deemed necessary. Our annual measurement date for testing impairment is October 1st. The assessment is performed in three steps. We assess qualitative factors, or step zero, to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If it is more likely than not that an impairment indicator exists utilizing the qualitative method, we then utilize step one to test for impairment via estimating the fair value of our reporting units utilizing a combination of market and income approaches. This step one provides a fair value to determine whether it is more likely than not that the fair value of the reporting unit is less than its carrying value, including goodwill. The estimated fair value of our reporting units are subject to a number of estimates, including discount rates, revenue growth rates, cash flow assumptions, and market information. If potential impairments are identified, we perform step two to measure the impairment loss through a full fair value allocation of the assets and liabilities of the reporting unit utilizing the acquisition method of accounting.

During the third quarter of 2020, we performed an interim impairment test of goodwill as of September 30, 2020. As a result, we recorded a non-cash impairment charge of \$400.0 million within the Chemical segment. The Company updated this assessment as of October 1, 2020 (our annual impairment date) utilizing a qualitative approach as outlined in ASC 350-20-35-38, and noted no impairment indicators during the fourth quarter of 2020. Therefore, the company's annual assessment concluded that the fair value of the reporting unit exceeded the book value of the reporting unit, including goodwill, and thus there was no impairment recognized in the fourth quarter of 2020. For further discussion on the Company's goodwill impairment see Note 14 *Industry Segment and Foreign Operations*.

Asset Retirement Obligations ("ARO"). We have determined that we have contractual or regulatory requirements to decommission and perform other remediation for many of our manufacturing and research facilities upon retirement. We

account for ARO’s pursuant to the provisions of ASC 410-20, *Asset Retirement Obligations*. ASC 410-20 requires us to record the fair value of an ARO as a liability in the period in which we have a legal obligation associated with the retirement of tangible long-lived assets that result from the acquisition, construction, development, and/or normal use of the assets. The ARO is also capitalized as part of the carrying cost of the asset and is depreciated over the life of the asset. The recognition of an ARO requires us to make numerous estimates, assumptions, and judgments regarding such factors as the existence of a legal obligation for an ARO; estimated probabilities; amounts and timing of settlements; the credit-adjusted risk-free rate to be used; discount rate and inflation rates. Subsequent to the initial measurement of the ARO, the obligation is adjusted at the end of each period to reflect accretion of the liability to its non-discounted amount and changes in either the timing or the amount of the original estimated future cash flows underlying the obligation. Revisions also result in increases or decreases in the carrying cost of these assets. Increases in the ARO liability due to accretion is charged to depreciation and amortization expense. The related capitalized cost, including revisions thereto, is charged to depreciation and amortization expense. See Note 12 *Commitments and Contingencies* to the consolidated financial statements.

Long-Lived Assets. In accordance with the Impairment or Disposal of Long-Lived Assets Subsections of ASC 360-10, *Property, Plant, and Equipment—Overall*, long-lived assets, such as property, plant, and equipment, and purchased intangible assets subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If circumstances require a long-lived asset or asset group be tested for possible impairment, we first compare undiscounted cash flows expected to be generated by that asset or asset group to its carrying value. If the carrying value of the long-lived asset or asset group is not recoverable on an undiscounted cash flow basis, impairment is recognized to the extent that the carrying value exceeds its fair value. Fair value is determined through various valuation techniques including discounted cash flow models, quoted market values, and third-party independent appraisals, as considered necessary. See Note 10 *Fair Value Measurements, Financial Instruments, and Credit Risk* to the consolidated financial statements.

Intangible Assets. Intangible assets are stated at cost, net of accumulated amortization. We have intangible assets related to technology, customer relationships, tradenames/trademarks, and software as detailed in Note 6 *Detail of Certain Balance Sheet Accounts* to the consolidated financial statements. See Note 7 *Detail of Certain Balance Sheet Accounts* to the consolidated financial statements. Intangible assets are amortized using the straight-line method over the asset’s estimated useful life as follows:

Technology	15 years
Customer relationships	15 years
Tradenames/trademarks	15 years
Software	3 - 10 years

Pension and Other Postretirement Plans. We sponsor noncontributory defined benefit pension plans (“Pension Plans”) and a post-retirement benefit plan (“Retiree Medical Plan”). We annually evaluate significant assumptions related to the benefits and obligations of these plans. Our estimation of the projected benefit obligations and related benefit expense requires that certain assumptions be made regarding such variables as expected return on plan assets, discount rates, rates of future compensation increases, estimated future employee turnover rates and retirement dates, distribution election rates, mortality rates, retiree utilization rates for health care services, and health care cost trend rates. The determination of the appropriate assumptions requires considerable judgment concerning future events and has a significant impact on the amount of the obligations and expense recorded. We rely in part on actuarial studies when determining the appropriateness of certain of the assumptions used in determining the benefit obligations and the annual expenses for these plans. See Note 13 *Employee Benefits* to the consolidated financial statements.

Investment in Unconsolidated Joint Venture. Our 50.0% equity investment in a manufacturing joint venture at our Kashima site is accounted for under the equity method with our share of the operating results of the joint venture classified within earnings of unconsolidated joint venture.

We evaluate our equity method investment for impairment when events or changes in circumstances indicate, in our judgment, that the carrying value of such investment may have experienced an other-than-temporary decline in value. When evidence of loss in value has occurred, we compare the estimated fair value of the investment to the carrying value of the investment to determine whether impairment has occurred. We assess the fair value of our equity method investment using commonly accepted techniques, and may use more than one method, including, but not limited to, recent third party comparable sales, internally developed analysis and analysis from outside advisors. If the estimated fair value is less than the carrying value and we consider the decline in value to be other than temporary, the excess of the carrying value over the estimated fair value is recognized in the financial statements as an impairment. See Note 15 *Related Party Transactions* to the consolidated financial statements.

Debt Issuance Costs. We capitalize financing fees and other costs related to issuing long-term debt. We amortize these costs using the effective interest method, except for costs related to revolving debt, which are amortized using the straight-line method. The amortization of debt issuance costs is recorded in interest expense. See Note 9 *Long-Term Debt* to the consolidated financial statements.

Contingencies. We are routinely involved in litigation, claims, and disputes incidental to our business. Professional judgment is required to classify the likelihood of these contingencies occurring. All relevant information that can be acquired concerning the uncertain set of circumstances needs to be obtained and used to determine the probability classification. A contingency is categorized as probable, reasonably possible, or remote. A contingency is classified as probable if the future event or events are likely to occur. For the probable contingencies, a loss is accrued and disclosed as of the date of the financial statements if it is both probable that an asset has been impaired or a liability has been incurred at the date of the financial statements and the amount of loss can be reasonably estimated. A reasonably possible contingency occurs if the chance of the future event or events happening is more than remote but less than likely (reasonably possible but not probable). We disclose the loss contingencies in the footnotes to the financial statements but do not recognize any liability. A remote contingency is one where the chance of the future event or events occurring is slight. We neither accrue for nor disclose the liability in the notes to the financial statements. For loss contingencies, our accounting policy is to expense legal costs as incurred. See Note 12 *Commitments and Contingencies* to the consolidated financial statements.

Environmental Costs. Environmental costs are expensed as incurred unless the expenditures extend the economic useful life of the relevant assets. Costs that extend the economic useful life of assets are capitalized and depreciated over the remaining life of those assets. Liabilities are recorded when environmental assessments, or remedial efforts are probable, and the cost can be reasonably estimated. See Note 12 *Commitments and Contingencies* to the consolidated financial statements.

Disclosures about Fair Value of Financial Instruments. For cash and cash equivalents, receivables, accounts payable, and certain accrued expenses, the carrying amount approximates fair value due to the short maturities of these instruments. For long-term debt instruments and interest rate swap agreements, fair value is estimated based upon market values (if applicable) or on the current interest rates available to us for debt with similar terms and remaining maturities. See Note 10 *Fair Value Measurements, Financial Instruments, and Credit Risk* to the consolidated financial statements.

Revenue Recognition. Revenue is recognized in accordance with the provisions of ASC 606, *Revenue from Contracts with Customers*, when obligations under the terms of a contract with our customer are satisfied. Generally, this occurs at a point in time when the transfer of risk and title to the product transfers to the customer. Our products are generally sold free on board shipping point or, with respect to countries other than the U.S., an equivalent basis. Our standard terms of delivery are included in our contracts of sale, order confirmation documents, and invoices. As such, all revenue is considered revenue recognized from contracts with customers and we do not have other sources of revenue. Revenue is measured as the amount of consideration we expect to receive in exchange for transferring goods or providing services. Revenue is recognized net of sales tax, value-added taxes, and other taxes. Shipping and other transportation costs charged to customers are recorded in both revenue and cost of goods sold. We do not have any material significant payment terms as payment is received at or shortly after the point of sale. Certain customers may receive cash-based incentives (including rebates and price supports), which are accounted for as variable consideration. We estimate rebates and price supports based on the expected amount to be provided to customers and reduce revenues recognized once the performance obligation has been met. Sales commissions are expensed in cost of goods sold once the performance obligation with the associated sale has been met. We do not have significant changes in our estimates for variable considerations. See Note 3 *Revenue Recognition* to the consolidated financial statements.

Research and Development Expenses. Research and development costs are expensed as incurred.

Share-Based Compensation. Share-based compensation cost is measured at the grant date based on the fair value of the award. We recognize these costs using the straight-line method over the requisite service period. Upon adoption of ASU 2016-09, *Improvements to Employee Share-Based Payment Accounting (Topic 817)*, we now recognize actual forfeitures by reducing the employee share-based compensation expense in the same period as the forfeitures occur.

We estimate the fair value of performance-based restricted share units using a combination of Monte Carlo simulations and internal metrics. The expected term represents the period of time that performance share units granted are expected to be outstanding. Our expected volatilities are based on historical volatilities for Kraton and the members of the peer group. The risk free interest rate for the periods within the contractual life of the performance-based restricted share units is equal to the yield, as of the valuation date, of the zero coupon U.S. Treasury STRIPS that have a remaining term equal to the length of the remaining performance period. The expected dividend yield is assumed to be zero, which is the equivalent of reinvesting dividends in the underlying company's stock. Forfeitures are recognized when they occur. See Note 6 *Share-Based Compensation* to the consolidated financial statements.

Leases. Our leases, with a term greater than one year, are classified as either operating or financing and carried at fair value on the balance sheet as lease assets acquired and liabilities assumed, except for capital leases in existence prior to our

adoption of ASC 842, *Leases*. Capital leases in existence at the time of our adoption of ASC 842, *Leases*, are accounted for in accordance with ASC 840, *Leases*.

Our contracts, with a term greater than one year, are classified as leases if 1) there is an identified asset and contract term, 2) we have the right to substantially all the economic benefit of the asset, and 3) we have the right to direct how and for what purpose the identified asset is used or we have the right to operate the asset throughout the period of use without changing operations of the asset.

We classify leases as financing under any of the following circumstances:

- ownership of the underlying asset is transferred to us by the end of the lease term;
- the lease grants us an option to purchase the underlying asset that it is reasonably certain to be exercised;
- the lease term is for the major part of the remaining economic life of the underlying asset;
- the present value of the lease payments and residual value guarantee equals or exceeds substantially all of the fair value of the underlying asset; or
- the underlying asset is so specialized that it is expected to have no use to the lessor at the end of the lease term.

Our lease policy follows ASC 842, *Leases*, practical expedients election whereby: 1) we do not reassess under the new standard our prior conclusions about lease identification, lease classification, and initial direct costs; 2) we elected the short-term lease recognition exemption for all leases that qualify, and 3) we do not separate lease and non-lease components for all of our leases. See Note 12 *Commitments and Contingencies* to the consolidated financial statements.

Income Taxes. We conduct operations in separate legal entities in different jurisdictions. As a result, income tax amounts are reflected in these consolidated financial statements for each of those jurisdictions.

Income taxes are recorded utilizing an asset and liability approach. This method gives consideration to the future tax consequences associated with the differences between the financial accounting and tax basis of the assets and liabilities as well as the ultimate realization of any deferred tax asset resulting from such differences.

Valuation allowances are recorded to reduce deferred tax assets when it is more likely than not that a tax benefit will not be realized.

In assessing the realizability of deferred tax assets, we consider all available evidence both positive and negative, to determine whether a valuation allowance is necessary relative to net deferred tax assets. In making this determination, we consider the current year and two preceding years for potential cumulative losses, and sources of income for sufficient taxable income. We consider the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. Based upon the level of historical taxable income and projections for future taxable income over the periods in which the deferred tax assets are deductible, we believe it is more likely than not that we will realize the benefits of these deductible differences, net of the existing valuation allowances.

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. 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. See Note 11 *Income Taxes* to the consolidated financial statements.

Foreign Currency Translation and Foreign Currency Exchange Rates. Financial statements of our operations outside the U.S. where the local currency is considered to be the functional currency are translated into U.S. dollars using the exchange rate at each balance sheet date for assets and liabilities and the average exchange rate for each period for revenue, expenses, gains, losses, and cash flows. The effects of translating such operations into U.S. dollars are included as a component of accumulated other comprehensive income (loss).

2. New Accounting Pronouncements

Adoption of Accounting Standards

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

In February 2016, the Financial Accounting Standards Board (“FASB”) established Topic 842, *Leases*, by issuing ASU 2016-02, which requires lessees to recognize leases on-balance sheet and disclose key information about leasing arrangements. Topic 842 was subsequently amended by ASU 2018-01, *Land Easement Practical Expedient for Transition to Topic 842*; ASU 2018-10, *Codification Improvements to Topic 842, Leases*; and ASU 2018-11, *Targeted Improvements*. The new standard establishes a right-of-use (“ROU”) model that requires a lessee to recognize a ROU asset and lease liability on the balance sheet for all leases with a term longer than twelve months. Leases will be classified as finance or operating, with classification affecting the pattern and classification of expense recognition in the income statement.

We adopted the new standard on January 1, 2019 and used the effective date as our date of initial application. The new standard provides a number of optional practical expedients in transition. We elected the following practical expedients: (1) “package of practical expedients”, which permits us not to reassess under the new standard our prior conclusions about lease identification, lease classification, and initial direct costs; (2) the short-term lease recognition exemption for all leases that qualify; and (3) the practical expedient to not separate lease and non-lease components for all of our leases.

This standard had a material effect on our financial statements. The most significant effects relate to: (1) the recognition of new ROU assets and lease liabilities on our balance sheet for our equipment, building, and vehicle operating leases; (2) the derecognition of existing assets and liabilities for straight line lease accounting under ASC 840, *Leases*; and (3) providing significant new disclosures about our leasing activities. On adoption, we recognized additional operating liabilities of \$70.9 million, with corresponding ROU assets of the same amount based on the present value of the remaining minimum rental payments under current leasing standards for existing operating leases. See Note 12 *Commitments and Contingencies* to the consolidated financial statements.

In June 2016, the Financial Accounting Standards Board (“FASB”) issued ASU 2016-13, *Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. This standard is effective for fiscal years beginning after December 15, 2019. Our analysis of ASU 2016-13 was completed during 2019, and there is no material change to our financial position, results of operations, and cash flows. We adopted ASU 2016-13 effective January 1, 2020.

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. Our analysis of ASU 2017-04 was completed during 2019, and there is no material change to our financial position, results of operations, and cash flows. We adopted ASU 2017-04 effective January 1, 2020.

In November 2018, the FASB issued ASU 2018-18, *Collaborative Arrangements (Topic 808): Clarifying the Interaction between Topic 808 and Topic 606*. This standard is effective for fiscal years beginning after December 15, 2019. Our analysis of ASU 2018-18 was completed during 2019, and there is no material change to our financial position, results of operations, and cash flows. We adopted ASU 2018-18 effective January 1, 2020.

In March 2020, the FASB issued ASU No. 2020-04, *Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting*. This standard provides practical expedients and exception for applying U.S. GAAP to contracts, hedging relationships, and other transactions affected by reference rate reform if certain criteria are met. This standard is applicable to our contracts and hedging relationships that reference LIBOR. The amendments may be applied through December 31, 2022. We will apply this guidance to transactions and modifications of these arrangements as appropriate.

New Accounting Standards to be Adopted in Future Periods

In December 2019, the FASB issued ASU 2019-12, *Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes*. This standard is effective for fiscal years beginning after December 15, 2020. Early adoption is permitted for any interim period after issuance of the ASU. Our evaluation of this standard is currently ongoing, and we expect to adopt ASU 2019-12 effective on January 1, 2021.

3. Revenue Recognition

Revenue is recognized when performance obligations under the terms of a contract with our customer are satisfied. Generally, this occurs at a point in time when control of the product transfers to the customer. Our standard terms of delivery are included in our contracts of sale, order confirmation documents, and invoices. As such, all revenue is considered revenue recognized from contracts with customers and we do not have other sources of revenue. Revenue is measured as the amount of consideration we expect to receive in exchange for transferring goods or providing services. Revenue is recognized net of sales tax, value-added taxes, and other taxes. Shipping and other transportation costs charged to customers are recorded in both revenue and cost of goods sold. We do not have any material significant payment terms as payment is received at or shortly after the point of sale. Certain customers may receive cash-based incentives (including rebates and price supports), which are accounted for as variable consideration. We estimate rebates and price supports based on the expected amount to be provided to customers and reduce revenues recognized once the performance obligation has been met. Sales commissions are expensed in cost of goods sold once the performance obligation with the associated sale has been met. We do not have significant changes in our estimates for variable considerations.

We have deferred revenue of \$175.5 million, of which \$24.2 million is in other payables and accruals, related to contractual commitments with customers for which the performance obligation will be satisfied over time, which will range from one to ten years. During the year ended December 31, 2020, we deferred \$180.6 million within deferred income and other payables and accruals related to the Isoprene Rubber Supply Agreement (“IRSA”) with Daelim Industrial Co, Ltd. (“Daelim”) associated with the sale of our Cariflex business. The revenue associated with these performance obligations is recognized as the obligation is satisfied, which occurs as a volume based metric over time with the transfer of risk and title of finished products to the customer. See Note 4 *Disposition and Exit of Business Activities* for further discussion of the IRSA.

Occasionally, we enter into bill-and-hold contracts, where we invoice the customer for products even though we retain possession of the products until a point in time in the future when the products will be shipped to the customer. In these contracts, the primary performance obligation is satisfied at a point in time when the product is segregated from our general inventory, it is ready for shipment to customer, and we do not have the ability to use the product or direct it to another customer. Additionally, we have a secondary performance obligation related to custodial costs, including storage and freight, which is satisfied over time once the product has been delivered to the customer. During the the years ended December 31, 2020, 2019, and 2018, we recognized \$4.1 million, \$5.6 million, and \$7.3 million, respectively, of revenue related to these arrangements.

We disaggregate our revenue by segment product lines, which is how we market our products and review results of operations. The following tables disaggregate our segment revenue by major product lines:

Revenue	Years Ended December 31,		
	2020	2019	2018
	(In thousands)		
Performance Products	\$ 459,906	\$ 531,437	\$ 631,728
Specialty Polymers	316,206	334,726	408,628
Cariflex	36,930	186,266	180,814
Isoprene Rubber	42,986	—	—
Other	1,530	539	416
Polymer Product Line Revenue	<u>\$ 857,558</u>	<u>\$ 1,052,968</u>	<u>\$ 1,221,586</u>

Revenue	Years Ended December 31,		
	2020	2019	2018
	(In thousands)		
Adhesives	\$ 257,855	\$ 262,941	\$ 280,867
Performance Chemicals	406,152	438,146	461,100
Tires	41,585	50,381	48,122
Chemical Product Line Revenue	<u>\$ 705,592</u>	<u>\$ 751,468</u>	<u>\$ 790,089</u>

	December 31, 2020	December 31, 2019
	(In thousands)	
Contract receivables ⁽¹⁾	\$ 179,805	\$ 190,093
Contract liabilities ⁽²⁾	\$ 175,511	\$ 12,456

- (1) Contract receivables are recorded within receivables, net of allowances on our Consolidated Balance Sheets. This includes \$20.4 million of contract receivables related to the Cariflex business recorded as current assets held for sale as of December 31, 2019.
- (2) Our contract liability increased by \$163.1 million largely attributable to consideration received as part of the sale of our Cariflex business and entering into a multi-year IRSA with Daelim.

4. Disposition and Exit of Business Activities

On March 6, 2020, we completed the sale of our Cariflex business to Daelim for gross proceeds of \$530.0 million, adjusted for incremental working capital of \$5.8 million, less contractual capital contributions of \$25.3 million. The sale closed and is subject to a customary post-closing working capital adjustment and a contractual capital contribution post-closing adjustment. Upon closing, we recognized a gain of \$175.2 million, and as part of the consideration received, entered into a multi-year IRSA with Daelim. As the IRSA product sales are at cost, we deferred approximately \$180.6 million, of which \$158.2 million and \$22.4 million were recorded within deferred income and other payables and accruals, respectively, on the consolidated balance sheet as of the transaction date. The deferred income will be amortized into revenue as a non-cash transaction when the products are sold. In accordance with the IRSA, we will supply Isoprene Rubber to Daelim for a period of five years, with an optional extension for an additional five years.

The IRSA provided \$43.0 million of Isoprene Rubber sales revenue for the year ended December 31, 2020. Included within Isoprene Rubber sales revenue is \$18.5 million of amortization of deferred income, which represents non-cash revenue realized as the products are sold under the IRSA for the year ended December 31, 2020. See Note 3 *Revenue Recognition* for further discussion of the impact to the year ended December 31, 2020 related to Cariflex and Isoprene Rubber sales.

We used the \$510.5 million net proceeds from the sale of our Cariflex business principally for repayment of the full outstanding balance of \$290.0 million under the U.S. dollar denominated tranche (the “USD Tranche”) of the Company’s senior secured term loan facility (the “Term Loan Facility”) and repayment in the amount of €160.0 million (or approximately \$184.8 million) of borrowings under the Euro dollar denominated tranche (the “Euro Tranche”) of the Term Loan Facility. We used the remaining proceeds in accordance with the terms of the Term Loan Facility to make additional repayments of debt and/or invest in strategic assets in the Company.

For further discussion on assets held for sale, see Note 5 *Assets Held for Sale*.

5. Assets Held for Sale

On October 30, 2019, we entered into a purchase and sale agreement to sell our Cariflex product line operated by our Polymer segment for \$530.0 million in cash, subject to customary adjustments. This transaction closed in the first quarter of 2020, subject to customary regulatory approvals and other closing conditions, and we recorded a gain of \$175.2 million on the sale of assets upon closing of the transaction. This product line was deemed to be held for sale and the related assets and liabilities were classified as such in our December 31, 2019 balance sheet. We ceased depreciation of the related assets beginning in January 2020. The following are the major classes of assets and liabilities for this business that were reflected in our balance sheet as assets and liabilities held for sale at December 31, 2019.

December 31, 2019

(In thousands)

ASSETS	
Receivables, net of allowances of \$51	\$ 20,397
Inventories of products, net	27,030
Inventories of materials and supplies, net	965
Prepaid expenses	1,913
Other current assets	1,051
Property, plant, and equipment, less accumulated depreciation of \$27,146	26,891
Other long-term assets	93
Long-term operating lease assets, net	74
Total assets	\$ 78,414
LIABILITIES	
Accounts payable-trade	9,180
Other payables and accruals	5,669
Long-term operating lease liabilities	3
Total liabilities	14,852
Net assets	\$ 63,562

The results of operations of this business are not classified as discontinued operations.

6. Share-Based Compensation

We account for share-based awards under the provisions of ASC 718, *Compensation—Stock Compensation*, which established the accounting for share-based awards exchanged for employee services. 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. Upon adoption of ASU 2016-09, *Improvements to Employee Share-Based Payment Accounting (Topic 817)*, we now recognize actual forfeitures by reducing the employee share-based compensation expense in the same period as the forfeitures occur. Share-based compensation expense was approximately \$11.4 million, \$9.5 million, and \$8.1 million, tax effected by \$2.5 million, \$2.1 million, and \$1.9 million for the years ended December 31, 2020, 2019, and 2018, respectively. Our unrecognized compensation expense related to our share-based awards was as follows as of December 31, 2020:

	Unrecognized Compensation Expense	Weighted Average Remaining Recognition Period
	(In thousands)	
Restricted stock awards	\$ 165	0.15
Restricted stock units	\$ 4,484	1.86
Performance stock units	\$ 4,614	1.61

2016 Equity and Cash Incentive Plan. On May 18, 2016, our stockholders approved the Kraton Corporation 2016 Equity and Cash Incentive Plan (the “2016 Plan”). Under the 2016 Plan, there are a total of 4,678,621 shares of our common stock reserved for issuance. As of December 31, 2020 and 2019 there were 1,804,184 and 2,901,188 shares of our common stock available for issuance under the 2016 Plan, respectively.

2019 Equity Inducement Plan. On April 17, 2019, our stockholders approved the Kraton Corporation 2019 Equity Inducement Plan (the “Inducement Plan”). Under the Inducement Plan, there are a total of 150,000 shares of our common stock reserved for issuance. As of December 31, 2020 there were 97,039 shares of our common stock available for issuance under the Inducement Plan.

Non-qualified Stock Option Activity

Non-qualified option activities for the year ended December 31, 2020 are as follows:

	Options	Weighted Average Exercise Price	Aggregate Intrinsic Value ⁽¹⁾	Weighted Average Remaining Contractual Term
	(In thousands)		(In thousands)	
Outstanding at December 31, 2019	387	\$ 30.31		
Granted	—	—		
Exercised	(3)	28.42		
Forfeited	—	—		
Expired	(36)	28.68		
Outstanding and exercisable at December 31, 2020	<u>348</u>	<u>\$ 30.49</u>	\$ 299	1.44

(1) The intrinsic value of a stock option is the amount by which the market value of the underlying stock exceeds the exercise price of the option as of December 31, 2020.

These options have a ten year term. During the year ended December 31, 2020, net proceeds of \$0.1 million were received from the exercise of stock options.

	Years Ended December 31,		
	2020	2019	2018
	(In thousands)		
Options exercised	3	116	173
Total intrinsic value of options exercised	\$ —	\$ 623	\$ 1,050

Restricted Stock Awards and Restricted Stock Units

We may grant to certain employees time-vested restricted stock awards and time-vested restricted stock units. Holders of restricted stock units do not have any beneficial ownership in the common stock underlying the restricted stock units and the

grant represents an unsecured promise to deliver common stock on a future date. Actual shares of common stock underlying the restricted stock units will not be issued until the earlier of the passage of the vesting period, a change in control that also results in the termination of the grantee's employment, or the death/disability of the participant. We awarded 108,076 restricted stock awards to our employees, which are subject to a three-year cliff vesting, during the year ended December 31, 2018. We issued 78,336, 23,447, and 16,932 restricted stock awards to members of the board of directors during the years ended December 31, 2020, 2019, and 2018, respectively, which vested on the grant date. We granted 360,153, 192,214, and 32,908 restricted stock units to our employees during the years ended December 31, 2020, 2019, and 2018, respectively, which are subject to a three-year cliff vesting.

The following table represents the non-vested restricted stock awards and restricted stock units granted, vested, and forfeited during 2020.

	Restricted Stock Awards		Restricted Stock Units	
	Shares	Weighted-average Grant-date Fair Value	Shares	Weighted-average Grant-date Fair Value
	(In thousands)		(In thousands)	
Non-vested shares at December 31, 2019	204	\$ 35.19	249	\$ 32.74
Granted	78	10.21	360	10.45
Vested	(198)	21.02	(127)	30.37
Forfeited	(12)	45.10	(37)	20.83
Non-vested shares at December 31, 2020	73	\$ 45.13	445	\$ 17.34

The aggregate intrinsic value was \$13.3 million and the weighted average remaining contractual term was 1.02 for restricted stock units. The intrinsic value of a restricted stock unit is the amount by which the market value of the underlying restricted stock unit exceeds the grant date value of the restricted stock unit as of December 31, 2020.

The total fair value of shares vested during the years ended December 31, 2020, 2019, and 2018 pursuant to restricted stock awards and restricted stock units was \$3.6 million, \$6.7 million, and \$12.4 million, respectively.

Performance Share Units

We may grant to certain employees performance share units, which vest after the achievement of performance criteria and time vesting established at grant. Holders of performance share units do not have any beneficial ownership in the shares of our common stock underlying the performance share units, and the grant represents an unsecured promise to deliver shares of our common stock on a future date. The performance share units vest at the end of a three-year period assuming continued employment and assuming the Company's achievement of the performance measures established by our compensation committee when the performance share units were initially granted. When performance share units vest, a number of shares of our common stock from 0% to 200% of the initial grant amount will be issued, depending on the level of achievement of such performance measures. We granted 358,316, 137,508, and 109,844 performance share units to our employees during the years ended December 31, 2020, 2019, and 2018, respectively. During the year ended December 31, 2020, we modified certain performance measures for the 2018 and 2019 performance share units as a result of the Cariflex divestiture. The impacts of these modifications resulted in a \$2.9 million increased compensation cost for the year ended December 31, 2020.

The following table represents the non-vested performance share units granted, vested, and forfeited during 2020.

	Shares	Weighted-average Grant-date Fair Value	Aggregate Intrinsic Value ⁽¹⁾	Weighted Average Remaining Contractual Term
	(In thousands)		(In thousands)	
	Non-vested shares at December 31, 2019	378	\$ 43.08	
Granted	358	8.53		
Vested	—	—		
Forfeited	(188)	28.85		
Non-vested shares at December 31, 2020	548	\$ 23.25	\$ 15,446	1.61

(1) The intrinsic value of a performance share unit is the amount by which the market value of the underlying performance share unit exceeds the grant date value of the performance share unit as of December 31, 2020.

The total fair value of shares vested during the year ended December 31, 2019 pursuant to performance share units was \$2.4 million.

Weighted-Average Assumptions for Performance Share Unit Grant Date Fair Value

For the performance share units granted in 2020, a component of the performance targets was based on relative total shareholder return over the three-year performance cycle compared to an industry peer group. The weighted average fair value using a Monte Carlo simulation model and the corresponding weighted average assumptions for the performance share units granted were as follows:

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Risk-free interest rate	0.84 %	2.51 %	2.36 %
Expected dividend yield	— %	— %	— %
Expected volatility	50.9 %	32.2 %	36.6 %
Fair value per performance share award	\$ 6.46	\$ 60.68	\$ 61.30

7. Detail of Certain Balance Sheet Accounts

	December 31,	
	2020	2019
(In thousands)		
Inventories of products:		
Finished products	\$ 240,021	\$ 255,406
Work in progress	3,074	4,589
Raw materials	84,039	80,647
Inventories of products, gross	327,134	340,642
Inventory reserves	(8,249)	(8,185)
Inventories of products, net	<u>\$ 318,885</u>	<u>\$ 332,457</u>
Property, plant, and equipment:		
Land	\$ 46,936	\$ 38,494
Buildings	199,720	182,873
Plant and equipment ⁽¹⁾	1,358,990	1,270,646
Construction in progress	69,336	73,124
Property, plant, and equipment	1,674,982	1,565,137
Less accumulated depreciation	732,279	639,197
Property, plant, and equipment, net of accumulated depreciation	<u>\$ 942,703</u>	<u>\$ 925,940</u>
Intangible assets:		
Contractual agreements	\$ 265,375	\$ 261,923
Technology	147,011	145,663
Customer relationships	60,623	60,291
Tradenames/trademarks	83,519	80,638
Software	68,276	63,181
Intangible assets	624,804	611,696
Less accumulated amortization:		
Contractual agreements	110,811	87,576
Technology	74,693	68,132
Customer relationships	40,205	38,760
Tradenames/trademarks	53,951	48,162
Software	50,410	43,189
Accumulated amortization	330,070	285,819
Intangible assets, net of accumulated amortization	<u>\$ 294,734</u>	<u>\$ 325,877</u>

(1) Plant and equipment, net of depreciation, includes \$2.7 million and \$3.4 million of assets related to capital leases as of December 31, 2020 and December 31, 2019, respectively.

	December 31,	
	2020	2019
(In thousands)		
Other payables and accruals:		
Employee related	\$ 52,145	\$ 27,078
Short-term operating lease liabilities	18,299	20,908
Interest payable	3,873	16,289
Capital project accruals	1,149	13,259
Customer related	10,484	10,329
Short-term deferred income	24,182	1,407
Income tax payable	26,367	3,372
Utilities payable	2,886	2,397
Property and other taxes	1,303	1,548
Other	26,676	16,058
Total other payables and accruals	<u>\$ 167,364</u>	<u>\$ 112,645</u>
Other long-term liabilities:		
Pension and other postretirement benefits	\$ 133,634	\$ 126,386
Long-term tax liability	19,530	21,022
Other	15,402	14,503
Total other long-term liabilities	<u>\$ 168,566</u>	<u>\$ 161,911</u>

Depreciation expense for property, plant, and equipment was approximately \$82.7 million, \$89.9 million, and \$91.8 million for the years ended December 31, 2020, 2019, and 2018, respectively.

Amortization expense for intangible assets was approximately \$43.0 million, \$46.0 million, and \$49.3 million for the years ended December 31, 2020, 2019, and 2018, respectively. Estimated amortization expense for each of the next five years is as follows:

<u>December 31:</u>	<u>Amortization Expense</u>
	(In thousands)
2021	\$ 41,214
2022	\$ 38,530
2023	\$ 37,246
2024	\$ 36,910
2025	\$ 36,849

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

	Cumulative Foreign Currency Translation	Cash Flow Hedges, Net of Tax	Net Investment Hedges, Net of Tax	Benefit Plans Liability, Net of Tax	Total
	(In thousands)				
Balance at December 31, 2018	\$ (24,093)	\$ 3,922	\$ 6,153	\$ (77,681)	\$ (91,699)
Other comprehensive income (loss) before reclassifications	(5,296)	(6,311)	7,471	(12,849)	(16,985)
Amounts reclassified to expense from accumulated other comprehensive loss	—	—	—	2,889 (1)	2,889
Net other comprehensive income (loss) for the year	(5,296)	(6,311)	7,471	(9,960)	(14,096)
Balance at December 31, 2019	(29,389)	(2,389)	13,624	(87,641)	(105,795)
Other comprehensive income (loss) before reclassifications	36,431	1,387	(25,881)	(11,370)	567
Amounts reclassified to (income) expense from accumulated other comprehensive loss	66,533	1,002 (2)	(899)	727 (1)	67,363
Net other comprehensive income (loss) for the year	102,964	2,389	(26,780)	(10,643)	67,930
Balance at December 31, 2020	<u>\$ 73,575</u>	<u>\$ —</u>	<u>\$ (13,156)</u>	<u>\$ (98,284)</u>	<u>\$ (37,865)</u>

- (1) The reclassifications from accumulated other comprehensive income (loss) is for the change in benefit plans liability represents amortization of net actuarial losses and prior service costs. These costs are allocated between cost of goods sold, selling, general, and administrative and research and development expenses in the Consolidated Statement of Operations. See Note 13 *Employee Benefits* for further information related to net periodic benefit cost for pension and other post-retirement benefit plans.
- (2) The reclassifications from accumulated other comprehensive income (loss) is related to the exit of interest rate swaps related to prepayments under our U.S. dollar denominated tranche (the “USD Tranche”). These costs are recorded in loss on extinguishment of debt in the Consolidated Statement of Operations.

8. 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.

Unvested awards of share-based payments with rights to receive dividends or dividend equivalents, such as our restricted stock awards are considered to be participating securities and therefore the two-class method is used for purposes of calculating EPS. Under the two-class method, a portion of net income is allocated to these participating securities and therefore is excluded from the calculation of EPS allocated to common stock. These shares are subject to forfeiture and restrictions on transfer until vested and have identical voting, income, and distribution rights to the unrestricted common shares outstanding.

We withheld 33,927, 82,721, and 140,064 shares of restricted stock upon vesting to satisfy employee payroll tax withholding requirements for the years ended December 31, 2020, 2019, and 2018, respectively. We immediately retired all shares withheld and the transactions were reflected in additional paid in capital and retained earnings in the Consolidated Statements of Changes in Equity and as a purchase of treasury stock in the Consolidated Statements of Cash Flows.

The computation of diluted EPS excludes weighted average restricted share units of 460,014 for the year ended December 31, 2020, as they are anti-dilutive due to a net loss attributable to Kraton.

The computation of diluted EPS excludes the effect of performance share units for which the performance contingencies had not been met as of the reporting date, amounting to 547,912, 378,084, and 436,370 units at December 31, 2020, 2019, and 2018, respectively.

The computation of diluted earnings per share excludes the effect of the potential exercise of stock options that are anti-dilutive, amounting to 309,476, and 431,627 options for the years ended December 31, 2019, and 2018, respectively. We did not exclude any options for the year ended December 31, 2020.

The calculations of basic and diluted EPS are as follows:

Year Ended December 31, 2020		
Net Loss Attributable to Kraton	Weighted Average Shares Outstanding	Earnings Per Share
(In thousands, except per share data)		

<i>Basic:</i>		
As reported	\$ (225,602)	31,845
Amounts allocated to unvested restricted shares	701	(99)
Amounts available to common stockholders	(224,901)	31,746
		\$ (7.08)
<i>Diluted:</i>		
Amounts allocated to unvested restricted shares	(701)	99
Non participating share units		—
Stock options added under the treasury stock method		—
Amounts reallocated to unvested restricted shares	701	(99)
Amounts available to stockholders and assumed conversions	\$ (224,901)	31,746
		\$ (7.08)

Year Ended December 31, 2019		
Net Income Attributable to Kraton	Weighted Average Shares Outstanding	Earnings Per Share
(In thousands, except per share data)		

<i>Basic:</i>		
As reported	\$ 51,305	31,828
Amounts allocated to unvested restricted shares	(399)	(247)
Amounts available to common stockholders	50,906	31,581
		\$ 1.61
<i>Diluted:</i>		
Amounts allocated to unvested restricted shares	399	247
Non participating share units		259
Stock options added under the treasury stock method		41
Amounts reallocated to unvested restricted shares	(395)	(247)
Amounts available to stockholders and assumed conversions	\$ 50,910	31,881
		\$ 1.60

Year Ended December 31, 2018		
Net Income Attributable to Kraton	Weighted Average Shares Outstanding	Earnings Per Share
(In thousands, except per share data)		

<i>Basic:</i>		
As reported	\$ 67,015	31,878
Amounts allocated to unvested restricted shares	(972)	(462)
Amounts available to common stockholders	66,043	31,416
		\$ 2.10
<i>Diluted:</i>		
Amounts allocated to unvested restricted shares	972	462
Non participating share units		168
Stock options added under the treasury stock method		205
Amounts reallocated to unvested restricted shares	(961)	(462)
Amounts available to stockholders and assumed conversions	\$ 66,054	31,789
		\$ 2.08

Share Repurchase Program. In February 2019, we announced a repurchase program for up to \$50.0 million of the Company's common stock by March 2021. Repurchases may be made at management's discretion from time to time through privately-negotiated transactions, in the open market, or through broker-negotiated purchases in compliance with applicable securities law, including through a 10b5-1 Plan. The repurchase program may be suspended for periods or discontinued at any time, and the amount and timing of the repurchases are subject to a number of factors, including Kraton's stock price. During the year ended December 31, 2020, we did not repurchase any shares of our common stock under this program. From inception of the program through December 31, 2020, we repurchased 311,152 shares of our common stock at an average price of \$32.14 per share and a total cost of \$10.0 million. We are not obligated to acquire any specific number of shares of our common stock.

9. Long-Term Debt

Long-term debt consists of the following:

	December 31, 2020				December 31, 2019			
	Principal	Discount	Debt Issuance Cost	Total	Principal	Discount	Debt Issuance Cost	Total
	(In thousands)							
USD Tranche	\$ —	\$ —	\$ —	\$ —	\$ 290,000	\$ (5,057)	\$ (6,985)	\$ 277,958
Euro Tranche	104,159	—	(996)	103,163	277,134	—	(3,237)	273,897
7.0% Senior Notes	—	—	—	—	394,750	—	(5,846)	388,904
4.25% Senior Notes	400,000	—	(6,995)	393,005	—	—	—	—
5.25% Senior Notes	355,366	—	(4,221)	351,145	325,378	—	(4,879)	320,499
ABL Facility	—	—	—	—	—	—	—	—
KFPC Loan Agreement	52,730	—	(18)	52,712	82,375	—	(33)	82,342
KFPC Revolving Credit Facilities	37,003	—	—	37,003	20,010	—	—	20,010
Capital lease obligation	835	—	—	835	1,015	—	—	1,015
Total debt	950,093	—	(12,230)	937,863	1,390,662	(5,057)	(20,980)	1,364,625
Less current portion of total debt	72,347	—	—	72,347	53,139	—	—	53,139
Long-term debt	<u>\$ 877,746</u>	<u>\$ —</u>	<u>\$ (12,230)</u>	<u>\$ 865,516</u>	<u>\$ 1,337,523</u>	<u>\$ (5,057)</u>	<u>\$ (20,980)</u>	<u>\$ 1,311,486</u>

Senior Secured Term Loan Facility. On March 6, 2020, we sold our Cariflex business and the net proceeds from the transaction were used to fully repay \$290.0 million of outstanding borrowings under the USD Tranche of our Term Loan Facility and repay €75.0 million (or approximately \$84.7 million) of outstanding borrowings under the Euro Tranche. We repaid an additional €70.0 million (or approximately \$82.1 million) and €15.0 million (or approximately \$18.0 million) on September 30, 2020 and November 30, 2020, respectively, under the Euro Tranche. The Euro Tranche interest rate applicable margin is 2.0%. Our Term Loan Facility will mature on March 8, 2025.

As of the date of this filing, the effective interest rate for the Euro Tranche is 2.8%. The Term Loan Facility contains a number of customary affirmative and negative covenants and we were in compliance with those covenants as of the date of this filing.

7.0% Senior Notes due 2025. On December 21, 2020, we called for redemption and satisfied and discharged the remaining \$394.8 million outstanding aggregate principal amount of our 7.0% Senior Notes due 2025 (the "7.0% Senior Notes"). The consideration and redemption price plus accrued and unpaid interest for the redemption were paid with the net proceeds of the offering of the 4.25% Senior Notes due 2025 (the "4.25% Senior Notes").

On December 6, 2018 we commenced a repurchase program for up to \$20.0 million of our 7.0% Senior Notes. Purchases under the program may take place from time to time in the open market and through privately negotiated transactions, including pursuant to a 10b5-1 Plan. During the year ended December 31, 2019, we repurchased \$4.3 million of our 7.0% Senior Notes. The repurchase program ended March 4, 2019.

4.25% 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 4.25% Senior Notes due 2025 (the "4.25% Senior Notes") in December 2020, which mature on December 15, 2025. The 4.25% 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 4.25% per annum, semi-annually in arrears on June 15 and December 15 of each year.

5.25% Senior Notes due 2026. Kraton Polymers LLC and its wholly-owned financing subsidiary Kraton Polymers Capital Corporation issued €290.0 million, or approximately \$355.4 million, aggregate principal amount of 5.25% Senior Notes due 2026 (the “5.25% Senior Notes”) in May 2018, which mature on May 15, 2026. The 5.25% 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 5.25% per annum, semi-annually in arrears on May 15 and November 15 of each year.

ABL Facility. Our asset-based revolving credit facility provides financing of up to \$300.0 million (as amended, the “ABL Facility”). The ABL Facility also provides that we have the right at any time to request up to \$100.0 million of additional commitments, provided that we satisfy certain additional conditions. We had no outstanding borrowings under the ABL Facility as of December 31, 2020. The termination date of the ABL Facility is December 3, 2025 (subject to earlier termination if certain outstanding indebtedness under the Term Loan Facility or our senior unsecured notes is not previously refinanced). We amended and restated the credit agreement governing our ABL Facility in April 2020 pursuant to which the termination date was extended from January 6, 2021 to January 6, 2023. In December 2020, we further amended the credit agreement governing the amended and restated credit agreement to extend the termination date to December 3, 2025.

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 contains a number of customary affirmative and negative covenants, and we were in compliance with those covenants as of the date of this filing. As part of the April 2020 amendment and restatement, there was no significant change in terms and a price increase of 50 basis points in the borrowing margin for amounts outstanding under the ABL Facility, while improving certain borrowing base advance rates and borrowing base eligibility criteria from the existing agreement. In December 2020, we amended and restated the credit agreement governing the ABL Facility to extend the term through December 3, 2025, reduced the borrowing margin by 50 basis points along with a 75 basis point decrease in the floor rate for amounts outstanding and borrowed under the facility, and reduced the unused line fee by 12.5 basis points for available committed amounts with no outstanding borrowings under the facility. In addition, the aggregate commitments under the ABL Facility were also increased from \$250.0 million to \$300.0 million.

KFPC Loan Agreement. As of December 31, 2020, NTD 1.5 billion, or approximately \$52.7 million, was drawn on KFPC's syndicated loan agreement (the “KFPC Loan Agreement”). For the year ended December 31, 2020, the 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. KFPC was in compliance with those covenants as of the date of this filing. Additionally, due to a waiver received from the majority of lenders, we are no longer subject to the remaining 2020 financial covenants. In each case, these covenants are calculated and tested on an annual basis at December 31st each year. The KFPC Loan Agreement will mature on January 17, 2022.

KFPC Revolving Facilities. KFPC also has four revolving credit facilities (the “KFPC Revolving Facilities”) to provide funding for working capital requirements and/or general corporate purposes, which allow for total borrowings of up to NTD 2.2 billion (or approximately \$76.5 million). All of the KFPC Revolving Facilities are subject to variable interest rates. As of December 31, 2020, NTD 1.0 billion (or approximately \$37.0 million) was drawn on the KFPC Revolving Facilities.

Debt Issuance Costs. We capitalize 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 is 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.

We recorded a \$40.8 million loss on extinguishment of debt during the year ended December 31, 2020, which includes a write off of \$20.7 million related to the call premium on the redemption of our outstanding 7.0% Senior Notes, a write off of \$13.9 million related to previously capitalized deferred financing costs on our Term Loan Facility and 7.0% Senior Notes, a write off of \$4.9 million related to original issue discount on our USD Tranche, and a \$1.3 million loss on the settlement of the ineffective portion of interest rate swaps.

We recorded a \$3.5 million loss on extinguishment of debt during the year ended December 31, 2019, which includes a write off of \$2.5 million related to previously capitalized deferred financing costs on our Term Loan Facility and 7.0% Senior Notes and a write off of \$1.3 million related to original issue discount on our Term Loan Facility. These write offs were partially offset by a \$0.3 million gain resulting from our repurchase of 7.0% Senior Notes.

We recorded a \$79.9 million loss on extinguishment of debt during the year ended December 31, 2018, which includes a write off of \$18.7 million related to previously capitalized deferred financing costs, a write off of \$17.4 million related to original issue discount on our Term Loan Facility, and a \$46.4 million related to the cash tender offer and subsequent redemption of the outstanding 10.5% Senior Notes, all of which was partially offset by a \$2.6 million gain on the settlement of the ineffective portion of interest rate swaps.

We had net debt issuance cost of \$14.4 million as of December 31, 2020, of which \$2.2 million related to our ABL Facility is recorded in other current assets and \$12.2 million is recorded as a reduction to long-term debt. We had net debt issuance cost of \$22.2 million as of December 31, 2019, of which \$1.2 million related to our ABL Facility is recorded in other current assets and \$21.0 million is recorded as a reduction to long-term debt. We amortized \$3.0 million, \$4.7 million, and \$5.8 million during the years ended December 31, 2020, 2019, and 2018, respectively.

Debt Maturities. The principal payments on our outstanding total debt as of December 31, 2020, are as follows:

December 31,	Principal Payments (In thousands)
2021	\$ 72,347
2022	17,778
2023	215
2024	228
2025	504,159
Thereafter	355,366
Total debt	\$ 950,093

See Note 10 *Fair Value Measurements, Financial Instruments, and Credit Risk* to the consolidated financial statements for fair value information related to our long-term debt.

10. 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 is 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 December 31, 2020 and December 31, 2019, respectively. 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. As of December 31, 2020 and 2019, the Company has no assets or liabilities utilizing significant unobservable inputs (or Level 3) to derive its estimated fair values.

	Balance Sheet Location	December 31, 2020	Fair Value Measurements at Reporting Date Using	
			Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)
(In thousands)				
Retirement plan asset—noncurrent	Other long-term assets	2,454	2,454	—
Derivative liability – current	Other payables and accruals	(219)	—	(219)
Total		\$ 2,235	\$ 2,454	\$ (219)

	Balance Sheet Location	December 31, 2019	Fair Value Measurements at Reporting Date Using	
			Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)
(In thousands)				
Derivative asset – current	Other current assets	\$ 14	\$ —	\$ 14
Derivative asset – noncurrent	Other long-term assets	32	—	32
Retirement plan asset—noncurrent	Other long-term assets	2,547	2,547	—
Derivative liability – current	Other payables and accruals	(170)	—	(170)
Total		\$ 2,423	\$ 2,547	\$ (124)

The use of derivatives creates exposure to credit risk relating to potential losses that could be recognized in the event that the counterparties to these instruments fail to perform their obligations under the contracts. We seek to minimize this risk by limiting our counterparties to major financial institutions with acceptable credit ratings and monitoring the total value of positions with individual counterparties. In the event of a default by one of our counterparties, we may not receive payments provided for under the terms of our derivatives.

Nonrecurring Fair Value Measurements. Our long-lived assets, such as property, plant, and equipment, and purchased intangible assets subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that their carrying value may not be recoverable. When impairment has occurred, such long-lived assets are written down to fair value. These evaluations are performed using Level 3 inputs to derive its estimated fair values.

During the year ended December 31, 2020, we impaired \$0.8 million related to specifically identified assets in our Chemical segment. During the year ended December 31, 2019, we impaired \$0.8 million of certain assets, of which \$0.5 million related to an expansion project in our Polymer segment. During the year ended December 31, 2018, we impaired certain assets totaling \$2.2 million, largely related to the impact of Hurricane Michael in our Chemical segment.

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

	December 31, 2020		December 31, 2019	
	Carrying Value	Fair Value	Carrying Value	Fair Value
	(In thousands)			
USD Tranche (significant other observable inputs – level 2)	\$ —	\$ —	\$ 290,000	\$ 290,183
Euro Tranche (significant other observable inputs – level 2)	\$ 104,159	\$ 103,574	\$ 277,134	\$ 277,827
7.0% Senior Notes (quoted prices in active market for identical assets – level 1)	\$ —	\$ —	\$ 394,750	\$ 406,214
4.25% Senior Notes (quoted prices in active market for identical assets – level 1)	\$ 400,000	\$ 409,880	\$ —	\$ —
5.25% Senior Notes (quoted prices in active market for identical assets – level 1)	\$ 355,366	\$ 367,886	\$ 325,378	\$ 338,364
ABL Facility	\$ —	\$ —	\$ —	\$ —
Capital lease obligation	\$ 835	\$ 835	\$ 1,015	\$ 1,015
KFPC Loan Agreement	\$ 52,730	\$ 52,730	\$ 82,375	\$ 82,375
KFPC Revolving Credit Facilities	\$ 37,003	\$ 37,003	\$ 20,010	\$ 20,010

The ABL Facility, Capital lease obligation, KFPC Loan Agreement, and KFPC Revolving Facilities are variable rate instruments, 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 fluctuations 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 a series of 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. Based on debt repayments, we have exited all of the interest rate swap agreements originally entered into in 2017. We reclassified out of other comprehensive income (loss) the settlement of our interest rate swaps that amounted to a \$1.3 million loss on extinguishment of debt for the year ended December 31, 2020. We recorded an unrealized gain of \$1.8 million and an unrealized loss of \$5.1 million for the years ended December 31, 2020 and 2019, respectively, in accumulated other comprehensive income (loss) in the Consolidated Balance Sheets 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 gain of \$0.9 million and a loss of \$4.0 million and \$1.1 million for the years ended December 31, 2020, 2019, and 2018, respectively, which are recorded in cost of goods sold in the Consolidated Statement 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.

Net Investment Hedge. During the year ended December 31, 2020, we designated €290.0 million of euro-denominated borrowing as a hedge against a portion of our net investment in the Company's European operations. The mark to market of this instrument was a loss of \$30.0 million and a gain of \$6.1 million for the year ended December 31, 2020 and 2019, respectively, which is recorded within accumulated other comprehensive income (loss) in the Consolidated Balance Sheets.

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.

11. Income Taxes

Kraton Corporation, the parent company, is domiciled in the U.S. and is subject to U.S. statutory rate of 21.0% from January 1, 2018 through December 31, 2020.

The provision for income taxes is comprised of the following:

	Years Ended December 31,		
	2020	2019	2018
	(In thousands)		
Current tax benefit (expense):			
U.S.	\$ (9,579)	\$ 13,968	\$ (22,158)
Foreign	(14,501)	(2,314)	(7,903)
Current tax benefit (expense)	(24,080)	11,654	(30,061)
Deferred tax benefit (expense):			
U.S.	(3,376)	(1,621)	18,868
Foreign	59,490	1,780	7,619
Deferred tax benefit (expense)	56,114	159	26,487
Income tax benefit (expense)	<u>\$ 32,034</u>	<u>\$ 11,813</u>	<u>\$ (3,574)</u>

Income (loss) before income taxes is comprised of the following:

	Years Ended December 31,		
	2020	2019	2018
	(In thousands)		
Income (loss) before income taxes:			
U.S.	\$ (484,131)	\$ 1,998	\$ 10,605
Foreign	230,411	42,006	63,490
Income before income taxes	<u>\$ (253,720)</u>	<u>\$ 44,004</u>	<u>\$ 74,095</u>

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:

	Years Ended December 31,		
	2020	2019	2018
Income taxes at the statutory rate	(21.0)%	(21.0)%	(21.0)%
Foreign tax rate differential	(0.2)	5.1	15.3
State taxes, net of federal benefit	(0.7)	(0.1)	(0.5)
Permanent differences	0.6	8.7	10.9
Cariflex disposition	(4.3)	—	—
Dutch transfer of assets	(25.9)	—	—
Tax credits	(0.5)	3.6	(0.1)
Uncertain tax positions	(1.2)	40.3	(8.3)
Valuation allowance	(0.6)	10.6	8.8
Goodwill impairment	33.1	—	—
Deferred tax rate change and transition tax	0.2	(7.7)	14.4
U.S. minimum tax on foreign entities	2.0	(17.8)	(16.2)
Other	5.9	5.1	(8.0)
Effective tax rate	<u>(12.6)%</u>	<u>26.8 %</u>	<u>(4.7)%</u>

As of December 31, 2020, we have recorded a deferred tax asset of \$65.8 million related to the intercompany transfers of certain intellectual property rights to our Dutch subsidiary. This transfer was to align the ownership of these rights with our evolving business. The transfer did not result in a taxable gain; however, our Dutch subsidiary received a step-up in tax basis based on the fair value of the transferred intellectual property rights. The fair value was determined utilizing certain estimates within the income approach based on our expectations of future cash flows, long-term growth rates, and discount rates. We recorded a one-time benefit of \$65.8 million for the recognition of the deferred tax asset in the Netherlands.

The Coronavirus Aid, Relief, and Economic Security Act (the “CARES Act”) was enacted by the U.S. on March 27, 2020. The CARES Act among other things, includes provisions relating to modifications of the net interest deduction limitations and revisions to alternative minimum tax credit (“AMT”) refunds. We have recognized a current tax benefit of \$9.7 million related to the modification to the interest deduction limitation. As a result of the CARES Act, we reclassified \$1.6 million of expected AMT refunds from long-term to current. We are continuing to analyze the CARES Act, but we do not anticipate the other income tax provisions of the CARES Act to have a material impact on our financial statements.

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes, as well as net operating loss and tax credit carryforwards. The tax effects of temporary differences are comprised of the following:

	December 31,	
	2020	2019
	(In thousands)	
Deferred tax assets:		
Net operating loss carryforwards	\$ 36,093	\$ 49,634
Interest carryforwards	4,974	30,429
Tax credit carryforwards	4,938	10,301
Inventory	8,309	8,100
Benefit plans accrual	31,431	25,219
Operating leases	13,279	17,543
Deferred income	36,999	—
Other accruals and reserves	11,821	4,782
Deferred tax assets	147,844	146,008
Valuation allowance for deferred tax assets	(39,517)	(38,440)
Net deferred tax assets after valuation allowance	108,327	107,568
Deferred tax liabilities:		
Property, plant, and equipment	117,678	112,454
Intangible assets	2,603	76,293
Operating leases	11,715	16,842
Investment in subsidiaries	18,356	18,356
Deferred tax liabilities	150,352	223,945
Net deferred tax liabilities	\$ 42,025	\$ 116,377
December 31,		
	2020	2019
	(In thousands)	
Net deferred tax liabilities consist of:		
Non-current deferred tax assets	\$ 83,534	\$ 8,863
Non-current deferred tax liabilities	125,559	125,240
Net deferred tax liabilities	\$ 42,025	\$ 116,377

As of December 31, 2020 and December 31, 2019, the net deferred tax liabilities were \$42.0 million and \$116.4 million, respectfully, the primary change was due to recording a \$65.8 million deferred tax asset for the intercompany transfer of certain intellectual property rights that resulted in a step-up of basis to fair value for the Dutch subsidiary.

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. As of December 31, 2020 and December 31, 2019, we recorded a valuation

allowance of \$39.5 million and \$38.4 million, respectively, against our net operating loss carryforwards (“NOL”) and other deferred tax assets.

We currently believe that certain unremitted foreign earnings of our subsidiaries will be permanently reinvested for an infinite period of time. Accordingly, we have not provided deferred taxes for the differences between these subsidiaries’ book basis and underlying tax basis or on related foreign currency translation adjustment amounts.

As of December 31, 2020, we had \$131.5 million of NOL carryforwards, related to foreign jurisdictions of which \$129.5 million is subject to a valuation allowance. Of the NOL carryforwards, \$1.6 million are set to expire at various times between 2027 through 2037, and \$129.9 million are non-expiring.

We file income tax returns in the U.S. federal jurisdiction and in various state and foreign jurisdictions. Our U.S. federal income tax returns, for 2004 remain open to examination, as a result of the utilization of NOL carryforwards from 2004. In addition, open tax years for state and foreign jurisdictions remain subject to examination. Although the outcome of tax audits is always uncertain, we believe that adequate amounts of tax, interest, and penalties have been provided for in the accompanying condensed financial statements for any adjustments that might be incurred due to federal, state, or foreign audits.

As of December 31, 2020 and December 31, 2019, we had unrecognized tax benefits of \$8.8 million and \$11.3 million, respectively, if recognized, would impact our effective tax rate. The net decrease was primarily due to the lapse in a statute of limitations for unrecognized tax benefits in the U.S. and China of \$3.4 million.

Interest and penalties relating to income taxes are included in income tax expense. As of December 31, 2020 and December 31, 2019, we had \$1.7 million and \$2.1 million of penalties and interest included in the total unrecognized tax benefits. Accrued interest and penalties relating to uncertain tax positions that are not actually assessed will be reversed in the year of resolution.

It is reasonable that the existing liabilities for the unrecognized tax benefits may increase or decrease over the next 12 months as a result of audit closures and statute expirations; however, the ultimate timing of the resolution and/or closure of audits is highly uncertain.

The following presents a roll forward of our unrecognized tax benefits including associated interest and penalties.

	December 31,	
	2020	2019
	(In thousands)	
Balance at January 1	\$ 11,294	\$ 29,603
Increase in current year tax positions	148	185
Increase in prior year tax positions	1,142	710
Decrease in prior year tax positions	—	(18,143)
Lapse of statute of limitations	(3,735)	(1,061)
Balance at December 31	<u>\$ 8,849</u>	<u>\$ 11,294</u>

12. Commitments and Contingencies

(a) Lease Commitments - accounted for under ASC 842, Leases

All of our lease ROU assets and lease liabilities are related to operating leases, where the lease term exceeds one year. Our operating leases are generally for railcars, office space, and equipment used to conduct our operations. We currently have no finance leases as that term is defined under ASC 842. These leases were discounted using a rate of 3.584%, which is based on a weighted average borrowing rate of specific debt. Non-variable lease costs include the amortization of the asset recorded on a straight-line basis. Variable lease components are non-index based payments based on performance or usage of the underlying asset. We have no material lessor or sublease income.

The components of lease cost for operating leases are as follows:

	Year Ended December 31, 2020	Year Ended December 31, 2019
	(In thousands)	
Lease cost	\$ 24,488	\$ 23,093
Variable lease cost	1,090	543
Operating lease expense	<u>\$ 25,578</u>	<u>\$ 23,636</u>

The operating lease liabilities on a discounted basis arising from obtaining ROU assets as of December 31, 2020 were comprised as follows:

Leased Asset Class	Polymer	Chemical	Percentage	Average Months Remaining on the Lease	Weighted Average in Months
(In thousands)					
Railcars	\$ 2,733	\$ 26,748	34.2 %	65	22.3
Buildings	24,623	9,868	40.0 %	27	10.6
Equipment	2,151	6,712	10.3 %	36	3.7
Land	7,045	44	8.2 %	359	29.5
Other	775	5,498	7.3 %	35	2.5
Total	<u>\$ 37,327</u>	<u>\$ 48,870</u>			<u>68.6</u>

The following tables show the undiscounted cash flows for the operating lease liabilities.

	December 31, 2020
	(In thousands)
2021	\$ 21,098
2022	15,992
2023	14,309
2024	10,668
2025	8,605
Thereafter	26,988
Total undiscounted operating lease liabilities	<u>97,660</u>
Present value discount	(11,474)
Foreign currency and other	11
Total discounted operating lease liabilities	<u>\$ 86,197</u>
	December 31, 2019
	(In thousands)
2020	\$ 23,310
2021	17,629
2022	13,087
2023	9,665
2024	6,264
Thereafter	27,860
Total undiscounted operating lease liabilities	<u>97,815</u>
Present value discount	(10,400)
Foreign currency and other	117
Total discounted operating lease liabilities	<u>\$ 87,532</u>

(b) Environmental and Safety Matters

Our finished products are not generally classified as hazardous under U.S. environmental laws. However, our operations involve the handling, transportation, treatment, and disposal of potentially hazardous materials that are extensively regulated by environmental, health and safety laws, regulations, and permit requirements. Environmental permits required for our operations are subject to periodic renewal and can be revoked or modified for cause or when new or revised environmental requirements are implemented. Changing and increasingly stringent environmental requirements can affect the manufacturing, handling, processing, distribution and use of our chemical products and the raw materials used to produce such products and, if so affected, our business and operations may be materially and adversely affected. In addition, changes in environmental

requirements can cause us to incur substantial costs in upgrading or redesigning our facilities and processes, including waste treatment, disposal, and other waste handling practices and equipment.

We conduct environmental management programs designed to maintain compliance with applicable environmental requirements at all of our facilities. We routinely conduct inspection and surveillance programs designed to detect and respond to leaks or spills of regulated hazardous substances and to identify and correct identified regulatory deficiencies. However, a business risk inherent with chemical operations is the potential for personal injury and property damage claims from employees, contractors and their employees, and nearby landowners and occupants. While we believe our business operations and facilities generally are operated in compliance, in all material respects, with all applicable environmental and health and safety requirements, we cannot be sure that past practices or future operations will not result in material claims or regulatory action, require material environmental expenditures, or result in exposure or injury claims by employees, contractors and their employees, and the public. Some risk of environmental costs and liabilities are inherent in our operations and products, as it is with other companies engaged in similar businesses.

Our Belpre, Ohio, facility is subject to a number of actual and/or potential environmental liabilities primarily relating to contamination caused by former operations at this facility. Some environmental laws could impose on us the entire costs of cleanup regardless of fault, legality of the original disposal, or ownership of the disposal site. In some cases, the governmental entity with jurisdiction could seek an assessment for damage to the natural resources caused by contamination from this site. Shell Chemicals has agreed, subject to certain limitations, in time and amounts, to indemnify us against most environmental liabilities related to the acquired facility that arose from conditions existing prior to the closing.

We had no material operating expenditures for environmental fines, penalties, government imposed remedial, or corrective actions in each of the years ended December 31, 2020, 2019, and 2018, respectively.

As of December 31, 2020 and 2019, we have recorded an environment obligation and corresponding receivable of \$2.2 million and \$2.7 million, respectively, relating to an indemnification agreement with International Paper, our Chemical segment's former owner.

(c) 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\$10.2 million, or approximately \$2.0 million. 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.

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.

(d) Asset Retirement Obligations ("ARO")

The changes in the aggregate carrying amount of our ARO liability are as follows:

	December 31,	
	2020	2019
	(In thousands)	
Beginning balance	\$ 6,523	\$ 5,703
Additional accruals	119	772
Accretion expense	348	343
Obligations settled	(1,164)	(206)
Foreign currency translation	506	(89)
Ending balance	<u>\$ 6,332</u>	<u>\$ 6,523</u>

In the third quarter of 2019, the Company recorded an ARO of \$0.8 million related to the decommissioning of certain assets related to isosteric production at its Dover, Ohio facility.

Pursuant to the indemnity included in the February 2001 separation agreement from Shell Chemical, we recorded a receivable of \$0.2 million as of December 31, 2019.

13. Employee Benefits

(a) Pension Plans.

U.S. Retirement Benefit Plan. We have two U.S. noncontributory defined benefit pension plans (“U.S. Pension Plans”). Our Polymer segment U.S. Pension Plans covers all salaried and hourly wage employees in the U.S. who were employed by us on or before December 31, 2005. Employees who began their employment with us after December 31, 2005 are not covered by our Pension Plans. The benefits under the Pension Plans are based primarily on years of service and employees’ pay near retirement. For our employees who were employed as of March 1, 2001 and who: (1) were previously employed by Shell Chemicals; and (2) elected to transfer their pension assets to us, we consider the total combined Shell Chemicals and Kraton service when calculating the employee’s pension benefit. For those employees who: (1) elected to retire from Shell Chemicals; or (2) elected not to transfer their pension benefit, only Kraton service (since March 1, 2001) is considered when calculating benefits. Our Chemical segment U.S. Pension Plans cover all U.S. employees hired prior to July 2004 and certain retirees of the Company participate in International Paper’s defined benefit pension plans. International Paper remains responsible for all benefits related to years of service prior to December 31, 2007. The Company implemented its own defined benefit pension plan for then eligible U.S. employees on March 1, 2007.

Based on the funded status and a related change in accrued pension obligations we reported an increase in our accumulated other comprehensive income (loss) of approximately \$9.9 million and a decrease of \$0.1 million as of December 31, 2020 and 2019, respectively.

Non-U.S. Retirement Benefit Plan. The Company sponsors defined benefit pension and retirement plans (“non-U.S. Pension Plans”) in certain foreign subsidiaries. Generally, the Company’s non-U.S. Pension Plans are funded using the projected benefit as a target in countries where funding of benefit plans is required.

Based on the funded status and a related change in accrued pension obligations we reported an increase in our accumulated other comprehensive income (loss) of approximately \$2.8 million and \$9.1 million as of December 31, 2020 and 2019, respectively.

The 2020 measurement date of the Pension Plan's assets and obligations was December 31, 2020. Information concerning the pension obligation, plan assets, amounts recognized in our financial statements, and underlying actuarial and other assumptions are as follows:

	U.S. Plans		Non-U.S. Plans	
	December 31,		December 31,	
	2020	2019	2020	2019
	(In thousands)			
Change in benefit obligation:				
Benefit obligation at beginning of period	\$ 194,897	\$ 177,589	\$ 95,265	\$ 81,108
Service cost	187	2,671	1,861	1,491
Interest cost	6,621	7,781	1,656	2,112
Participant contributions	—	—	242	215
Benefits paid	(8,170)	(7,354)	(5,255)	(3,577)
Plan amendments	—	(12,507)	—	(321)
Settlements	—	—	(1,018)	(400)
Other events	—	—	9,183	—
Actuarial (gain) loss	22,083	26,717	5,326	13,070
Exchange rate (gain) loss	—	—	5,504	1,567
Benefit obligation at end of period	<u>215,618</u>	<u>194,897</u>	<u>112,764</u>	<u>95,265</u>
Change in plan assets:				
Fair value at beginning of period	131,980	110,899	52,680	45,024
Return on plan assets	19,653	20,849	7,501	5,926
Employer contributions	3,865	7,586	5,502	4,067
Participant contributions	—	—	242	215
Benefits paid	(8,170)	(7,354)	(5,255)	(3,577)
Settlements	—	—	(1,018)	(400)
Other events	—	—	6,952	—
Exchange rate (gain) loss	—	—	2,682	1,425
Fair value at end of period	<u>147,328</u>	<u>131,980</u>	<u>69,286</u>	<u>52,680</u>
Funded status at end of period	<u>\$ (68,290)</u>	<u>\$ (62,917)</u>	<u>\$ (43,478)</u>	<u>\$ (42,585)</u>
Amounts recognized on balance sheet:				
Current liabilities	\$ —	\$ —	\$ (2,945)	\$ (2,323)
Noncurrent liabilities	(68,290)	(62,917)	(40,533)	(40,262)
	<u>\$ (68,290)</u>	<u>\$ (62,917)</u>	<u>\$ (43,478)</u>	<u>\$ (42,585)</u>
Amounts recognized in accumulated other comprehensive loss:				
Prior service costs	\$ —	\$ —	\$ 2,754	\$ 573
Net actuarial loss	68,407	58,505	21,112	20,495
Amounts recognized in accumulated other comprehensive loss	<u>\$ 68,407</u>	<u>\$ 58,505</u>	<u>\$ 23,866</u>	<u>\$ 21,068</u>
Accumulated benefit obligations	\$ 215,618	\$ 194,887	\$ 106,525	\$ 91,152

During the fourth quarter of 2019 (the effective date), we amended our Polymer segment U.S. Pension Plan, eliminating future participant benefit accruals after January 31, 2020, which resulted in a pension curtailment and remeasurement as of the effective date. This plan amendment resulted in a \$12.5 million reduction in pension liabilities during the year ended December 31, 2019.

During the third quarter of 2019, we amended our Japan pension plan, which resulted in a pension curtailment. This plan amendment resulted in a \$0.3 million reduction in pension liabilities during the year ended December 31, 2019.

Estimated Future Cash Flows. The following employer contributions and benefit payments, which reflect expected future service, as appropriate, are expected to be paid:

	<u>U.S. Plans</u>	<u>Non-U.S. Plans</u>
	<u>(In thousands)</u>	
Employer Contributions		
2021 Employer contributions	\$ 10,245	\$ 4,888
Benefit Payments		
2021	\$ 8,215	\$ 5,431
2022	8,584	6,240
2023	8,924	5,371
2024	9,195	5,633
2025	9,510	6,914
Years 2026-2030	51,938	34,566
Total Benefit Payments	<u>\$ 96,366</u>	<u>\$ 64,155</u>

Net Periodic Pension Costs. Net periodic pension costs consist of the following components:

	<u>U.S. Plans</u>			<u>Non-U.S. Plans</u>		
	<u>Years Ended December 31,</u>			<u>Years Ended December 31,</u>		
	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
	<u>(In thousands)</u>					
Service cost benefits earned during the period	\$ 187	\$ 2,671	\$ 3,221	\$ 1,861	\$ 1,491	\$ 2,504
Interest on prior year's projected benefit obligation	6,621	7,781	7,200	1,656	2,112	2,073
Expected return on plan assets	(9,106)	(10,065)	(9,808)	(2,731)	(2,520)	(2,685)
One-time settlement costs	—	—	—	143	56	—
Amortization of prior service costs	—	—	—	17	34	13
Amortization of net actuarial loss	1,634	3,487	4,650	1,050	419	645
Net periodic pension costs	<u>\$ (664)</u>	<u>\$ 3,874</u>	<u>\$ 5,263</u>	<u>\$ 1,996</u>	<u>\$ 1,592</u>	<u>\$ 2,550</u>

The estimated losses that will be amortized from accumulated other comprehensive income (loss) into net periodic benefit cost in fiscal 2021 are as follows:

	<u>U.S. Plans</u>	<u>Non-U.S. Plans</u>
	<u>(In thousands)</u>	
Amortization of prior service costs	\$ —	\$ 19
Amortization of net actuarial loss	2,420	1,048
	<u>\$ 2,420</u>	<u>\$ 1,067</u>

Significant Assumptions. Discount rates are determined annually and are based on rates of return of high-quality long-term fixed income securities currently available and expected to be available during the maturity of the pension benefits.

	U.S. Plans		Non-U.S. Plans	
	December 31,		December 31,	
	2020	2019	2020	2019
Weighted average assumptions used to determine benefit obligations:				
Discount rate	2.66 %	3.45 %	1.13 %	1.79 %
Rates of increase in salary compensation level	3.00 %	3.00 %	2.73 %	2.96 %
Expected long-term rate of return on plan assets	7.00 %	7.00 %	4.93 %	5.24 %
Weighted average assumptions used to determine net periodic benefit cost:				
Discount rate	3.45 %	4.45 %	1.79 %	2.63 %
Rates of increase in salary compensation level	3.00 %	3.00 %	2.96 %	2.98 %
Expected long-term rate of return on plan assets	7.00 %	8.00 %	5.24 %	5.49 %

Our management relied in part on actuarial studies in establishing the expected long-term rate of return on assets assumption. The studies include a review of anticipated future long-term performance of individual asset classes and consideration of the appropriate asset allocation strategy given the anticipated requirements of the Pension Plans to determine the average rate of earnings expected on the funds invested to provide for the Pension Plans' benefits. While the studies give appropriate consideration to recent fund performance and historical returns, the assumption is primarily a long-term, prospective rate. Based on our most recent study, the expected long-term return assumption for our U.S. Pension Plans effective for 2021 will be 7.0% and 4.9% for our non-U.S. Pension Plans.

Based on the U.S. Pension Plan's current target asset allocation, the median estimate for future asset returns (before non-investment expenses) was 7.5%. The asset return assumption set for determining the 2020 FASB ASC 715 expense was 7.0%, after non-investment expenses paid by the Trust. For the past three years, non-investment related expenses have averaged 0.5%. Therefore, the 7.0% return after non-investment expenses assumption is equivalent to a gross assumption of 7.5% (7.0% + 0.5%). An 7.5% rate (before non-investment expenses) falls within an acceptable range of simulated asset returns, between the 40th and 60th percentile.

Pension Plan Assets. We maintain target allocation percentages among various asset classes based on an investment policy established for our Pension Plans. The target allocation is designed to achieve long term objectives of return, while mitigating downside risk and considering expected cash flows. Our investment policy is reviewed from time to time to ensure consistency with our long term objective. Our Pension Plan asset allocations at December 31, 2020 and 2019 by asset category are as follows:

	U.S. Plans			Non-U.S. Plans		
	Target Allocation	Percentage of Plan Assets at December 31,		Target Allocation	Percentage of Plan Assets at December 31,	
	2020	2020	2019	2020	2020	2019
Equity	50.0 %	68.1 %	68.1 %	45.0 %	36.2 %	42.1 %
Debt	35.0	31.9	31.9	—	50.9	53.7
Other	15.0	—	—	55.0	12.9	4.2
Total	100.0 %	100.0 %	100.0 %	100.0 %	100.0 %	100.0 %

No pension assets were invested in debt or equity securities of Kraton at December 31, 2020 or 2019.

The inputs and methodology used for valuing securities are not an indication of the risk associated with investing in those securities. The following is a description of the primary valuation methodologies used for assets measured at fair value:

- Common/Collective Trust Funds: Valued at the net asset value per unit held at year end as quoted by the funds.
- Mutual Funds, Real Estate Funds, and Other Funds: Valued at the net asset value of shares held at year end as quoted in the active market.
- Insurance contracts for purposes of funding pension benefits.

A summary of total investments for our pension plan assets measured at fair value is presented below. See Note 10 *Fair Value Measurements, Financial Instruments, and Credit Risk* to the consolidated financial statements for a detailed description of fair value measurements and the hierarchy established for Level 1, 2, and 3 valuation inputs.

Pension Plan Assets Fair Value Measurements at December 31, 2020				
	Total	Quoted Prices In Active Markets Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
(In thousands)				
Equity	\$ 125,359	\$ 62,790	\$ 62,569	\$ —
Debt	82,253	14,063	68,190	—
Other	9,002	984	—	8,018
Total	<u>\$ 216,614</u>	<u>\$ 77,837</u>	<u>\$ 130,759</u>	<u>\$ 8,018</u>

(1) Included are plan assets of \$70.4 million, which are comprised of \$37.5 million and \$32.9 million in equity and debt, respectively, valued using the net asset value practical expedient measuring the fair value of investments in certain entities that calculate net asset value per share (or its equivalent).

Pension Plan Assets Fair Value Measurements at December 31, 2019				
	Total	Quoted Prices In Active Markets Identical Assets (Level 1)	Significant Observable Inputs (Level 2) ⁽¹⁾	Significant Unobservable Inputs (Level 3)
(In thousands)				
Equity	\$ 112,094	\$ 56,220	\$ 55,874	\$ —
Debt	70,358	12,745	57,613	—
Other	2,208	963	944	301
Total	<u>\$ 184,660</u>	<u>\$ 69,928</u>	<u>\$ 114,431</u>	<u>\$ 301</u>

(1) Included are plan assets of \$63.0 million, which are comprised of \$33.7 million and \$29.3 million in equity and debt, respectively, valued using the net asset value practical expedient measuring the fair value of investments in certain entities that calculate net asset value per share (or its equivalent).

(b) Other Retirement Benefit Plans. Certain employees were eligible to participate in non-qualified defined benefit restoration plans (“BRP”), which were intended to restore certain benefits under the Pension Plan in the U.S. and the Kraton Savings Plan in the U.S., that would otherwise be lost due to certain limitations imposed by law on tax-qualified plans.

(c) Postretirement Benefits Other Than Pensions. Health and welfare benefits are provided to benefit eligible employees in the U.S. who retire from Kraton and were employed by us prior to January 1, 2006. Retirees under the age of 65 are eligible for the same medical, dental, and vision plans as active employees, but with an annual cap on premiums that vary based on years of service and ranges from \$7,000 to \$10,000 per employee. Our subsidy schedule for medical plans is based on accredited service at retirement. Retirees are responsible for the full cost of premiums for postretirement dental and vision coverage. In general, the plans stipulate that health and welfare benefits are paid as covered expenses as incurred. We accrue the cost of these benefits during the period in which the employee renders the necessary service.

Employees who were retirement eligible as of February 28, 2001, have the option to participate in either Shell Chemicals' or Kraton's postretirement health and welfare plans.

ASC 715, “*Compensation-Retirement Benefits*,” requires that we measure the plans’ assets and obligations that determine our funded status at the end of each fiscal year. The 2020 measurement date of the plans’ assets and obligations was December 31, 2020. We are also required to recognize as a component of accumulated other comprehensive income (loss) the changes in funded status that occurred during the year that are not recognized as part of new periodic benefit cost.

Based on the funded status of our postretirement benefit plan as of December 31, 2020 and 2019, we reported an increase in our accumulated other comprehensive income (loss) of approximately \$2.9 million and \$3.1 million, respectively, and a related change in accrued pension obligations.

Information concerning the plan obligation, the funded status and amounts recognized in our financial statements and underlying actuarial and other assumptions are as follows:

	December 31,	
	2020	2019
(In thousands)		
Change in benefit obligation:		
Benefit obligation at beginning of period	\$ 23,979	\$ 22,824
Service cost	291	290
Interest cost	789	941
Benefits and expenses paid (premiums)	(921)	(2,055)
Actuarial (gain) loss	2,031	1,979
Plan amendments	—	—
Benefit obligation at end of period	<u>26,169</u>	<u>23,979</u>
Change in plan assets ⁽¹⁾ :		
Fair value at beginning of period	—	—
Employer contributions	921	2,055
Benefits paid	(921)	(2,055)
Fair value at end of period	—	—
Funded status at end of year	<u>\$ (26,169)</u>	<u>\$ (23,979)</u>

(1) Shell Chemicals has committed to a future cash payment related to retiree medical expenses based on a specified dollar amount per employee, if certain contractual commitments are met. We have recorded an asset of approximately \$4.4 million and \$5.7 million as our estimate of the present value of this commitment as of December 31, 2020 and 2019, respectively.

	December 31,	
	2020	2019
(In thousands)		
Amounts recognized in the balance sheet:		
Current liabilities	\$ (1,443)	\$ (1,446)
Noncurrent liabilities	(24,726)	(22,533)
	<u>\$ (26,169)</u>	<u>\$ (23,979)</u>
Amounts recognized in accumulated other comprehensive loss:		
Prior service cost	\$ (7,507)	\$ (9,254)
Net actuarial loss	\$ 10,977	\$ 9,833
	<u>\$ 3,470</u>	<u>\$ 579</u>

Estimated Future Cash Flows. The following employer contributions and benefit payments, which reflect expected future service, as appropriate, are expected to be paid:

	Retiree Medical Plan
	(In thousands)
Employer Contributions	
2021 Employer contributions	\$ 1,461
Benefit Payments	
2021	\$ 1,461
2022	1,458
2023	1,449
2024	1,439
2025	1,459
Years 2026-2030	7,190
Total Benefit Payments	\$ 14,456

Net periodic benefit costs consist of the following components:

	Years Ended December 31,		
	2020	2019	2018
	(In thousands)		
Service cost	\$ 291	\$ 290	\$ 490
Interest cost	789	941	1,224
Amortization of prior service cost	(1,747)	(1,747)	(582)
Amortization of net actuarial loss	887	621	742
Net periodic benefit costs	\$ 220	\$ 105	\$ 1,874

	December 31,	
	2020	2019
Weighted average assumptions used to determine benefit obligations:		
Measurement date	12/31/2020	12/31/2019
Discount rate	2.55 %	3.34 %
Rates of increase in salary compensation level	N/A	N/A
Weighted average assumptions used to determine net periodic benefit cost:		
Discount rate	3.34 %	4.36 %
Rates of increase in salary compensation level	N/A	N/A
Expected long-term rate of return on plan assets	N/A	N/A

	December 31,	
	2020	2019
Assumed Pre-65 health care cost trend rates:		
Health care cost trend rate assumed for next year	7.00 %	7.50 %
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)	4.50 %	4.50 %
Year that the rate reaches the ultimate trend rate	2026	2026

	December 31,	
	2020	2019
Assumed Post-65 health care cost trend rates:		
Health care cost trend rate assumed for next year	N/A	N/A
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)	N/A	N/A
Year that the rate reaches the ultimate trend rate	N/A	N/A

Discount rates are determined annually and are based on rates of return of high-quality long-term fixed income securities currently available and expected to be available during the maturity of the postretirement benefit plan.

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. A 1.0% change in assumed health care cost trend rates would have the following effect (in thousands):

	<u>1% Increase</u>	<u>1% Decrease</u>
Effect on total of service and interest cost components	\$ 1,576	\$ (2,382)
Effect on postretirement benefit obligation	\$ 41,919	\$ (55,903)

(d) Kraton Savings Plan. The Kraton Savings Plan, as adopted on March 1, 2001, covers substantially all U.S. employees, including executive officers. Through automatic payroll deduction, participants have the option to defer up to 60% of eligible earnings in any combination of pre-tax and/or post-tax contributions, subject to annual dollar limitations set forth in the Internal Revenue Code. Under this plan, we have two types of employer contributions:

- (1) We make standard matching contributions of 50.0% of the first 6.0% contributed by the employee from start of employment and we make matching contributions of 100.0% of the first 6.0% contributed by the employee after completing five years of service.
- (2) We make enhanced employer contributions of 4.0% for all employees.

For our employees who were employed as of February 28, 2001, and who were previously employed by Shell Chemicals, we recognize their Shell Chemicals years of service for purposes of determining employer contributions under our Plan. Our contributions to the plan for the years ended December 31, 2020, 2019, and 2018, were \$10.6 million, \$9.7 million, and \$9.2 million, respectively.

14. Industry Segment and Foreign Operations

Commensurate with the acquisition on January 6, 2016, Arizona Chemical became a separate operating segment with our operations 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.* Our Polymer segment is comprised of our SBCs and other engineered polymers business.
- *Chemical Segment.* Our 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. We currently do not have sales between segments.

Operating Results by Segment

	Year Ended December 31, 2020			Year Ended December 31, 2019		
	Polymer	Chemical	Total	Polymer	Chemical	Total
	(In thousands)					
Revenue	\$ 857,558	\$ 705,592	\$ 1,563,150	\$ 1,052,968	\$ 751,468	\$ 1,804,436
Cost of goods sold	627,297	537,982	1,165,279	820,410	569,597	1,390,007
Gross profit	230,261	167,610	397,871	232,558	181,871	414,429
Operating expenses:						
Research and development	29,972	10,771	40,743	29,392	11,681	41,073
Selling, general, and administrative	90,074	71,870	161,944	86,025	63,775	149,800
Depreciation and amortization	52,910	73,112	126,022	59,151	77,020	136,171
Impairment of goodwill	—	400,000	400,000	—	—	—
Gain on insurance proceeds	—	—	—	—	(32,850)	(32,850)
Loss on disposal of fixed assets	503	247	750	647	126	773
Operating income (loss)	<u>\$ 56,802</u>	<u>\$ (388,390)</u>	<u>(331,588)</u>	<u>\$ 57,343</u>	<u>\$ 62,119</u>	<u>119,462</u>
Other income (expense)			995			3,339
Disposition and exit of business activities			175,189			—
Loss on extinguishment of debt			(40,843)			(3,521)
Earnings of unconsolidated joint venture			457			506
Interest expense, net			(57,930)			(75,782)
Income (loss) before income taxes			<u>\$ (253,720)</u>			<u>\$ 44,004</u>

Year Ended December 31, 2018

	Polymer	Chemical	Total
	(In thousands)		
Revenue	\$ 1,221,586	\$ 790,089	\$ 2,011,675
Cost of goods sold	872,506	558,563	1,431,069
Gross profit	349,080	231,526	580,606
Operating expenses:			
Research and development	28,957	12,339	41,296
Selling, general, and administrative	89,753	64,144	153,897
Depreciation and amortization	71,006	70,404	141,410
Gain on insurance proceeds	—	(8,900)	(8,900)
Loss on disposal of fixed assets	202	1,967	2,169
Operating income (loss)	<u>\$ 159,162</u>	<u>\$ 91,572</u>	250,734
Other expense			(3,472)
Loss on extinguishment of debt			(79,866)
Earnings of unconsolidated joint venture			471
Interest expense, net			(93,772)
Income (loss) before income taxes			<u>\$ 74,095</u>

Goodwill

The Company conducts an annual impairment review of goodwill on October 1st of each year, unless events occur which trigger the need for an interim impairment review.

During the third quarter of 2020, the Company updated its annual long-range plan, taking into consideration the following:

- a continued decline in rosin margins, resulting from excess hydrocarbon supply, negatively affecting our adhesives applications
- a significant decline in gum turpentine pricing, which began in the second half of 2019, resulting in lower CST margins
- the impacts of COVID-19, which weakened demand fundamentals, including applications such as oilfield, tires, and automotive

These and other factors were considered indicators of impairment of our Chemical segment's goodwill. We performed an interim impairment test of goodwill as of September 30, 2020. As a result, we recorded a non-cash impairment charge of \$400.0 million within the Chemical segment. The Company updated this assessment as of October 1, 2020 (our annual impairment date) utilizing a qualitative approach, and noted no impairment indicators during the fourth quarter of 2020. There can be no assurances that future sustained declines in macroeconomic or business conditions affecting our industry will not occur, which could result in goodwill impairment charges in future periods.

The Company estimated the fair value using both an income and market approach. The determination of the fair value using the income approach requires management to make significant estimates and assumptions related to forecasts of future revenues, profit margins, and discount rates. The determination of the fair value using the market approach requires management to make significant assumptions related to earnings before interest, taxes, depreciation, and amortization ("EBITDA") multiples. The Company estimates future cash flows based upon EBITDA projections within our long-range plan, discounted at an appropriate risk-adjusted rate.

Under the income approach, the fair value for Chemical segment was determined based on the present value of estimated future cash flows, discounted at an appropriate risk-adjusted rate. We used our internal forecast, including our annual long-range plan, updated for recent events, to estimate future cash flows, including a terminal value. Our internal forecast includes assumptions about future commodity pricing and expected demand for goods and services. Due to the inherent uncertainties involved in making estimates and assumptions, actual results may differ from those assumed in our forecast.

Valuations using the market approach were derived from metrics of selected publicly traded peer companies. The selection of peer companies was based on the markets in which the Chemical segment operates, considering risk profiles, size, geography, and diversity of products and services.

We derived our risk-adjusted rate using a capital asset pricing model and analyzing published rates for industries and comparable businesses similar to our Chemical segment taking into account the cost of equity and debt. We used a risk-adjusted rate that is commensurate with the risks and uncertainties inherent in the respective businesses and in our internally developed forecast.

Changes in goodwill from January 1, 2020 through December 31, 2020 were as follows:

	<u>Chemical</u> <u>(In thousands)</u>
Balance at January 1, 2020	\$ 772,418
Goodwill impairment charge	(400,000)
Foreign currency translation	2,643
Balance at December 31, 2020	<u>\$ 375,061</u>

Long-Lived Assets Including Goodwill and Total Assets

	<u>December 31, 2020</u>			<u>December 31, 2019</u>		
	<u>Polymer</u>	<u>Chemical</u>	<u>Total</u>	<u>Polymer</u>	<u>Chemical</u>	<u>Total</u>
	<u>(In thousands)</u>					
Property, plant, and equipment, net	\$ 523,067	\$ 419,636	\$ 942,703	\$ 526,692	\$ 399,248	\$ 925,940
Investment in unconsolidated joint venture	\$ 12,723	\$ —	\$ 12,723	\$ 11,971	\$ —	\$ 11,971
Goodwill	\$ —	\$ 375,061	\$ 375,061	\$ —	\$ 772,418	\$ 772,418
Total assets	\$1,104,954	\$1,356,003	\$2,460,957	\$1,097,691	\$1,734,694	\$2,832,385

During the years ended December 31, 2020, 2019, and 2018, no single customer accounted for 10.0% or more of our total revenue.

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 presented at historical cost.

Revenue by Geographic Region

	<u>December 31, 2020</u>			<u>December 31, 2019</u>		
	<u>Polymer</u>	<u>Chemical</u>	<u>Total</u>	<u>Polymer</u>	<u>Chemical</u>	<u>Total</u>
	<u>(In thousands)</u>					
Revenue:						
United States	\$ 311,129	\$ 289,989	\$ 601,118	\$ 352,735	\$ 317,347	\$ 670,082
Germany	89,304	44,439	133,743	107,661	51,598	159,259
All other countries	457,125	371,164	828,289	592,572	382,523	975,095
	<u>\$ 857,558</u>	<u>\$ 705,592</u>	<u>\$ 1,563,150</u>	<u>\$ 1,052,968</u>	<u>\$ 751,468</u>	<u>\$ 1,804,436</u>
				<u>December 31, 2018</u>		
				<u>Polymer</u>	<u>Chemical</u>	<u>Total</u>
				<u>(In thousands)</u>		
Revenue:						
United States				\$ 412,308	\$ 325,193	\$ 737,501
Germany				141,451	53,908	195,359
All other countries				667,827	410,988	1,078,815
				<u>\$ 1,221,586</u>	<u>\$ 790,089</u>	<u>\$ 2,011,675</u>

Long-Lived Assets by Geographic Region

	December 31, 2020			December 31, 2019		
	Polymer	Chemical	Total	Polymer	Chemical	Total
(In thousands)						
Long-lived assets, at cost:						
United States	\$ 591,361	\$ 413,787	\$ 1,005,148	\$ 568,710	\$ 385,235	\$ 953,945
Taiwan	191,726	—	191,726	183,963	—	183,963
France	156,410	15,489	171,899	144,785	13,153	157,938
Germany	79,388	6,057	85,445	70,617	5,170	75,787
Sweden	—	78,329	78,329	—	64,281	64,281
All other countries	68,833	73,602	142,435	69,320	59,903	129,223
	<u>\$ 1,087,718</u>	<u>\$ 587,264</u>	<u>\$ 1,674,982</u>	<u>\$ 1,037,395</u>	<u>\$ 527,742</u>	<u>\$ 1,565,137</u>

Our capital expenditures, excluding software and other intangibles, for the Polymer segment, excluding capital expenditures by the KFPC joint venture, were \$36.5 million and \$58.7 million during the year ended December 31, 2020 and 2019, respectively, and capital expenditures, excluding software and other intangibles, for our Chemical segment were \$37.4 million and \$45.0 million during the year ended December 31, 2020 and 2019, respectively.

Impact of Hurricane Michael

During the year ended December 31, 2019, we finalized our insurance claims with our carrier related to Hurricane Michael. As result, we received payments from our carrier of \$32.9 million, of which \$1.1 million was received in 2018 and deferred into 2019 when realized, which has been recorded as a gain on insurance proceeds within the Consolidated Statement of Operations. This brings our total insurance proceeds to \$41.8 million to date, which offsets the lost margin and reimburses us for the direct costs and capital expenditures known to date.

15. Related Party Transactions

We own a 50.0% equity investment in an SBC manufacturing joint venture in Kashima, Japan. Our outstanding payables were \$14.8 million and \$16.4 million as of December 31, 2020 and 2019, respectively, which were recorded in “Due to related party” liability on the Consolidated Balance Sheets. Our total purchases from the joint venture were \$28.4 million, \$33.0 million, and \$35.4 million for the years ended December 31, 2020, 2019, and 2018, 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. Additionally, we purchase certain raw materials from FPCC for our other manufacturing locations. Our outstanding payables were \$2.3 million and \$1.1 million as of December 31, 2020 and 2019, respectively, which were recorded in “Due to related party” liability on the Consolidated Balance Sheets. Our total purchases from this joint venture were \$47.6 million, \$48.5 million, and \$47.2 million for the years ended December 31, 2020, 2019, and 2018, respectively. See Note 16 *Variable Interest Entity*, for further discussion related to the KFPC joint venture.

16. Variable Interest Entity

We hold a variable interest in a joint venture with FPCC to 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 80% 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, and therefore, we have consolidated KFPC in our financial statements and reflected FPCC's 50% percent ownership as a noncontrolling interest.

The following table summarizes the carrying amounts of assets and liabilities as of December 31, 2020 and 2019 for KFPC before intercompany eliminations. See Note 9 *Long Term Debt*, for further discussion related to the KFPC Loan Agreement executed on July 17, 2014.

	December 31, 2020	December 31, 2019
	(In thousands)	
Cash and cash equivalents	\$ 3,097	\$ 10,402
Other current assets	17,304	14,847
Property, plant, and equipment	150,838	155,153
Intangible assets	7,959	8,133
Long-term operating lease assets, net	7,178	7,044
Other long-term assets	6,510	2,147
Total assets	<u>\$ 192,886</u>	<u>\$ 197,726</u>
Current portion of long-term debt	\$ 72,156	\$ 52,961
Current liabilities	5,209	12,801
Long-term debt	17,559	49,391
Deferred income taxes	1,984	—
Long-term operating lease liabilities	6,700	6,603
Total liabilities	<u>\$ 103,608</u>	<u>\$ 121,756</u>

17. Selected Quarterly Financial Data (Unaudited)

The following table sets forth a summary of our quarterly financial information for each of the four quarters ended December 31, 2020 and December 31, 2019:

	First Quarter ⁽¹⁾	Second Quarter ⁽²⁾	Third Quarter ⁽³⁾	Fourth Quarter ⁽⁴⁾	Total
(In thousands, except per share data)					
2020					
Revenue	\$ 427,269	\$ 355,679	\$ 373,438	\$ 406,764	\$ 1,563,150
Gross profit	\$ 119,200	\$ 93,044	\$ 68,754	\$ 116,873	\$ 397,871
Operating income	\$ 28,241	\$ 12,831	\$ (406,771)	\$ 34,111	\$ (331,588)
Net income (loss) attributable to Kraton	\$ 208,086	\$ (7,968)	\$ (403,794)	\$ (21,926)	\$ (225,602)
Earnings (loss) per common share					
Basic	\$ 6.55	\$ (0.25)	\$ (12.67)	\$ (0.69)	\$ (7.08)
Diluted	\$ 6.47	\$ (0.25)	\$ (12.67)	\$ (0.69)	\$ (7.08)
Weighted average common shares outstanding					
Basic	31,587	31,782	31,787	31,798	31,746
Diluted	31,949	31,782	31,787	31,798	31,746
2019					
Revenue	\$ 456,411	\$ 495,280	\$ 444,221	\$ 408,524	\$ 1,804,436
Gross profit	\$ 107,002	\$ 129,202	\$ 101,279	\$ 76,946	\$ 414,429
Operating income (loss)	\$ 35,135	\$ 56,168	\$ 38,103	\$ (9,944)	\$ 119,462
Net income (loss) attributable to Kraton	\$ 12,668	\$ 41,208	\$ 18,693	\$ (21,264)	\$ 51,305
Earnings (loss) per common share					
Basic	\$ 0.40	\$ 1.29	\$ 0.59	\$ (0.67)	\$ 1.61
Diluted	\$ 0.39	\$ 1.28	\$ 0.58	\$ (0.67)	\$ 1.60
Weighted average common shares outstanding					
Basic	31,633	31,692	31,486	31,516	31,581
Diluted	31,901	32,017	31,823	31,516	31,881

- (1) The first quarter of 2020 was positively impacted by a \$175.2 million gain on the sale of our Cariflex business. The first quarter of 2019 was positively impacted by a \$11.1 million gain on insurance proceeds.
- (2) The second quarter of 2019 was positively impacted by a \$7.5 million gain on insurance proceeds.
- (3) The third quarter of 2020 was negatively impacted by a \$400.0 million goodwill impairment. The third quarter of 2019 was positively impacted by a \$14.3 million gain on insurance proceeds.
- (4) The fourth quarter of 2020 was negatively impacted by a \$25.9 million loss on extinguishment of debt. The fourth quarter of 2019 was negatively impacted by approximately \$5.0 million largely related to the process to review strategic alternatives for our Cariflex business and a \$3.7 million loss on extinguishment of debt.

Basic and diluted earnings per share are computed independently for each of the quarters presented. Therefore, the sum of quarterly basic and diluted earnings per share information may not equal annual basic and diluted earnings per share.

18. Subsequent Events

We have evaluated significant events and transactions that occurred after the balance sheet date and determined that there were no events or transactions that require recognition or disclosure in our consolidated financial statements for the period ended December 31, 2020.

KRATON CORPORATION
SCHEDULE II—VALUATION AND QUALIFYING ACCOUNTS AND RESERVES
For the Years Ended December 31, 2020, 2019, and 2018
(In thousands)

	Balance at Beginning of Period	Net Expenses	Write-offs	Balance at End of Period
Allowance for doubtful accounts:				
Year Ended December 31, 2020	\$ 434	\$ 164	\$ —	\$ 598
Year Ended December 31, 2019	\$ 784	\$ (117)	\$ (233)	\$ 434
Year Ended December 31, 2018	\$ 824	\$ (40)	\$ —	\$ 784

	Balance at Beginning of Period	Net Expenses	Foreign Currency	Balance at End of Period
Inventory reserves:				
Year Ended December 31, 2020	\$ 8,923	\$ 22	\$ 23	\$ 8,968
Year Ended December 31, 2019	\$ 8,951	\$ 6	\$ (34)	\$ 8,923
Year Ended December 31, 2018	\$ 11,452	\$ (2,274)	\$ (227)	\$ 8,951



KRATON CORPORATION

RESTRICTED STOCK PERFORMANCE UNIT AWARD AGREEMENT

Upon acceptance by you through the online acceptance procedures set forth at www.etrade.com, this Restricted Stock Performance Unit Award Agreement (this “*Agreement*”) is made effective as of the Grant Date (defined below) between Kraton Corporation (the “*Company*”) and you (the “*Participant*”). This Agreement evidences a grant of restricted stock units consisting of an unfunded and unsecured promise to deliver shares of the common stock, \$0.01 par value, of the Company (“*Common Stock*”) under the Company’s Amended and Restated 2016 Equity and Cash Incentive Plan (as amended, the “*Plan*”). Unless otherwise indicated, any capitalized term used but not defined herein shall have the meaning ascribed to such term in the Plan.

1. Grant of Restricted Stock Units. Pursuant to, and subject to, the terms and conditions set forth herein and in the Plan, the Company hereby grants to the Participant an award of the number of restricted stock units of the Company set forth on the Participant’s online award acceptance page at www.etrade.com, which is incorporated by reference herein, which number assumes achievement of the Target level of performance as described on *Schedule I* (collectively, the “*Restricted Stock Units*”), *provided* that (except as otherwise provided in this Agreement) the final number of restricted stock units shall be determined on the vesting date in accordance with the performance criteria set forth on Schedule I. Each Restricted Stock Unit constitutes an unfunded and unsecured promise of the Company to deliver one share of Common Stock to Participant on the vesting date subject to the terms and conditions of this Agreement. Participant’s rights with respect to the Restricted Stock Units shall be forfeitable until the Restricted Stock Units vest in accordance with Section 4. As a holder of Restricted Stock Units, the Participant has the rights of a general unsecured creditor of the Company unless and until the Restricted Stock Units are converted to shares of Common Stock upon vesting and transferred to Participant, as set forth herein. During the period prior to vesting of the Restricted Stock Units in accordance with Section 4, the Restricted Stock Units shall be bookkeeping entries only, and Participant shall have no rights to receive any shares of Common Stock hereunder. Participant shall have no voting or other rights of a stockholder of the Company with respect to the Restricted Stock Units prior to the issuance of Shares in accordance with Section 6.

2. Grant Date. The grant date of the Restricted Stock Units (the “*Grant Date*”) is the date set forth on the Participant’s online award acceptance page at www.etrade.com, which is incorporated by reference herein.

3. Incorporation of Plan. All terms, conditions and restrictions of the Plan are incorporated herein and made part hereof as if stated herein. If there is any conflict between the terms and conditions of the Plan and this Agreement, the terms and conditions of the Plan, as interpreted by the Committee, shall govern. All capitalized terms used herein that are not defined in this Agreement shall have the meanings given to such terms in the Plan.

4. Vesting Date; Settlement. The Restricted Stock Units shall become vested as follows:

(a) On the third anniversary of the Grant Date, a number of Restricted Stock Units shall vest based on the extent to which (based on percentage) the Company has satisfied or exceeded the performance conditions set forth on Schedule I to this Agreement, provided that the Participant is continuously employed by the Company through such anniversary (except as provided in clauses (b) and (c) below); or

(b) If the Participant’s employment is terminated prior to the third anniversary of the Grant Date due to Disability or death, then the Restricted Stock Units (rounded up to the next whole share) shall vest based upon product of (i) multiplied by (ii), where:

(i) Equals the fraction of (A) over (B), where:

(A) The numerator, equals the number or whole months in the performance period during which the Participant was continuously employed by the Company; and

(B) The denominator, equals thirty-six (36); and

(ii) Equals the number of Restricted Stock Units that would have vested based on the extent to which (based on percentage) the Company has satisfied or exceeded the performance conditions set forth on Schedule I to this Agreement, determined as of the last day of the month during which the Participant's employment is terminated.

(c) If the Participant's employment is terminated without Cause prior to the third anniversary of the Grant Date, but following the former of either the first (1st) anniversary of the Grant Date or reaching such Participant's "normal retirement date," then the Restricted Stock Units (rounded up to the next whole share) shall vest based upon product of (iii) multiplied by (iv), where:

(iii) Equals the fraction of (A) over (B), where:

(A) The numerator, equals the number or whole months in the performance period during which the Participant was continuously employed by the Company; and

(B) The denominator, equals thirty-six (36); and

(iv) Equals the number of Restricted Stock Units that would have vested based on the extent to which (based on percentage) the Company has satisfied or exceeded the performance conditions set forth on Schedule I to this Agreement, determined as soon as practicable following the end of the performance period and without regard to whether the Participant had been continuously employed through the third anniversary of the Grant Date.

For purposes of this clause (c), "normal retirement date" means the date on which the Participant attains age 65 or, if earlier, the earliest date on which a participant has *both* attained age fifty-five (55) *and* completed at least ten (10) years of continuous employment with the Company.

"Continuous employment" or **"continuously employed"** (or similar) means employment with the Company measured from the most recent date of hire with the Company and disregarding any and all periods of employment prior to such date. Notwithstanding the foregoing, if, on or before the second (2nd) anniversary of a Change in Control, but prior to the vesting event described in clause (a) above, the Participant's employment is terminated by the Company or its affiliate without Cause, then the Restricted Stock Units held by such Participant shall vest based on the extent to which (based on percentage) the Company has satisfied or exceeded the performance conditions set forth on Schedule I to this Agreement determined as of such termination date, subject to the Participant's execution of an effective general release and waiver (without revocation during any revocation period) of all claims against the Company, its affiliates and their respective officers and directors related to the Participant's employment, in a form acceptable to the Company at the Participant's termination of employment, not later than 50 days after the Participant's termination date. Upon the occurrence of the date of vesting described above, the Company shall deliver to the Participant the applicable number shares of Common Stock via electronic book-entry issuance.

For purposes of this Agreement, **"Disability"** has the meaning ascribed to it in the Company's long-term disability plan, and **"Cause"** means (i) a material breach by the Participant of any of the Participant's obligations under any written agreement with the Company or any of its affiliates, (ii) a material violation by the Participant of any of the Company's policies, procedures, rules and regulations applicable to employees generally or to employees at your grade level, in each case, as they may be amended from time to time in the Company's sole discretion; (iii) the failure by the Participant to reasonably and substantially perform his or her duties to the Company or its affiliates (other than as a result of physical or mental illness or injury); (iv) the Participant's willful misconduct or gross negligence that has caused or is reasonably expected to result in material injury to the business, reputation or prospects of the Company or any of its affiliates; (v) the Participant's fraud or misappropriation of funds; or (vi) the commission by the Participant of a felony or other serious crime involving moral turpitude; provided that if the Participant is a party to an employment agreement with the Company or its affiliate (an **"Employment Agreement"**) at the time of his or her termination of employment and such Employment Agreement contains a different definition of "cause" (or any derivation thereof), the definition in such Employment Agreement will control for purposes of this Agreement.

If a Participant is terminated without Cause and, within the twelve (12)-month period subsequent to such termination of employment, the Company determines in good faith that the Participant's employment could have been terminated for Cause, subject to anything to the contrary that may be contained in the Participant's Employment Agreement at the time of his or her termination of employment, the Participant's employment will, at the election of the Company, be deemed to have been terminated for Cause, effective as of the date the events giving rise to Cause occurred.

5. Forfeiture; Restrictions. Subject to the provisions of the Plan and Section 4 of this Agreement, with respect to the Restricted Stock Units that have not become vested on the date the Participant's employment is terminated, the award of Restricted Stock Units shall expire and such unvested Restricted Stock Units shall immediately be forfeited on such date. Participant shall not sell, transfer, pledge, assign, alienate, hypothecate, or otherwise encumber or dispose of the Restricted Stock Units other than by will or the laws of descent and distribution.

6. Delivery of Shares; Compliance with Securities Laws. Upon the vesting of any Restricted Stock Units granted hereunder, the Company shall direct its transfer agent to record by electronic book-entry in Participant's name a number of unrestricted shares of Common Stock equal to the whole number of Restricted Stock Units that become vested hereunder. Nothing herein shall obligate the Company to register the Restricted Stock Units pursuant to any applicable securities law or to take any other affirmative action in order to cause the issuance or transfer of the Restricted Stock Units to comply with any law or regulation of any governmental authority. The Company shall not be required to issue any shares of Common Stock prior to: (a) the obtaining of any approval from any governmental agency which the Company determines to be necessary or advisable; and (b) the Participant's payment to the Company of any federal, state or local tax or other withholding owed by Participant as a result of vesting of the Restricted Stock Units.

7. Delays or Omissions. No delay or omission to exercise any right, power, or remedy accruing to any party hereto upon any breach or default of any party under this Agreement, shall impair any such right, power or remedy of such party nor shall it be construed to be a waiver of any such breach or default, or an acquiescence therein, or of or in any similar breach or default thereafter occurring, nor shall any waiver of any single breach or default be deemed a waiver of any other breach or default theretofore or thereafter occurring. Any waiver, permit, consent or approval of any kind or character on the part of any party of any breach or default under this Agreement, or any waiver on the part of any party or any provisions or conditions of this Agreement, shall be in writing and shall be effective only to the extent specifically set forth in such writing.

8. Integration. This Agreement and the Plan contain the entire understanding of the parties with respect to its subject matter. There are no restrictions, agreements, promises, representations, warranties, covenants or undertakings with respect to the subject matter hereof other than those expressly set forth herein and the Plan. This Agreement and the Plan supersede all prior agreements and understandings between the parties with respect to the subject matter of this Agreement.

9. Counterparts. This Agreement may be executed in two or more counterparts, each of which shall be deemed an original, but all of which shall constitute one and the same instrument.

10. Governing Law; Jurisdiction and Venue. This Agreement shall be governed by and construed and enforced in accordance with the laws of the State of Texas, without regard to the provisions governing conflict of laws, to the maximum extent practicable calls for performance and shall be performable at the offices of the Company in Houston, Harris County, Texas and venue for any dispute arising hereunder shall lie exclusively in the state and/or federal courts of Harris County, Texas and the Southern District of Texas, Houston Division, respectively.

11. Participant Acknowledgment. The Participant hereby acknowledges receipt of a copy of the Plan via online delivery at www.etrade.com. The Participant hereby acknowledges that all decisions, determinations and interpretations of the Committee in respect of the Plan, and this Agreement shall be final and conclusive.

12. Mandatory Withholding of Taxes. The Participant acknowledges and agrees that the Company shall deduct from the shares of Common Stock otherwise deliverable a number of shares of Common Stock (valued at their Fair Market Value) on the applicable date that is equal to the amount of all federal, state and local taxes required to be withheld by the Company, as determined by the Committee.

13. Adjustments. As provided in Section 15 of the Plan, certain adjustments may be made to the Restricted Stock Units upon the occurrence of events or circumstances described in Section 15 of the Plan.

14. Restrictions Imposed by Law. The Company shall not be required to issue shares of Common Stock unless and until (i) such shares have been duly listed upon each stock exchange on which the Common Stock is then registered and (ii) the Company has complied with applicable federal and state securities laws.

15. Participant Employment. Nothing contained in this Agreement, and no action of the Company or the Committee with respect hereto, shall confer or be construed to confer on the Participant any right to continue in the employ of the Company or any of its Subsidiaries or interfere in any way with the right of the Company or any employing Subsidiary to terminate the Participant's employment at any time, with or without cause; subject, however, to the provisions of any employment agreement between the Participant and the Company or any Subsidiary.

16. Return of Restricted Stock Units. If at any time during or after the Performance Period, the Committee determines that an earlier determination as to the achievement of the performance conditions set forth on Schedule I was based on incorrect data and that in fact the performance conditions set forth on Schedule I had not been achieved or had been achieved to a lesser extent than originally determined and a portion of the Restricted Stock Units would not have been vested or settled given the correct data, then (i) such portion of the Restricted Stock Units that became vested shall be deemed to be not vested and (ii) such portion of the Restricted Stock Units that were settled in respect of the Participant shall be paid by the Participant to the Company (or, if such shares were disposed of, the cash equivalent as of the date of settlement) upon notice from the Company as provided by the Committee.

17. Section 409A. Payments under this Agreement are designed to be made in a manner that is exempt from Section 409A of the Code as a "short-term deferral," and the provisions of this Agreement will be administered, interpreted and construed accordingly (or disregarded consistent with Section 409A of the Code to the extent such provision cannot be so administered, interpreted, or construed). In that regard, except as provided in clause (c) of Section 4 of this Agreement, any shares of Common Stock shall in all events be transferred by March 15th of the year immediately following the year in which the Participant's vesting date occurs.

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Schedule I
Performance Condition

The number of Restricted Stock Units of the Company set forth on the Participant’s online award acceptance page at www.etrade.com, which is incorporated by reference herein and which number assumes achievement of the Target level of performance as described in this *Schedule I*, shall be split 50%, towards the achievement of Cumulative Adjusted EBITDA (as defined below) during the 3-year period commencing January 1, 2021 and ending December 31, 2023 (the “*Performance Period*”) and 50% towards the achievement of relative Total Shareholder Return (as defined below) during the 3-year period commencing December 31, 2020 and ending December 31, 2023. Such Restricted Stock Units, if any, will vest in accordance with Section 4 of the Agreement:

Cumulative Adjusted EBITDA

	<u>2021-2023 (\$ in millions)</u>
Threshold (0.5x Target)	\$*
Target (1.0x Target)	\$*
Stretch (2.0x Target)	\$*

Relative Total Shareholder Return	(% Rank)
Threshold (0.5x Target)	30th
Target (1.0x Target)	50th
Stretch (2.0x Target)	75th

The achievement of the performance criteria will be certified by the Compensation Committee of the Board of Directors of the Company after the conclusion of the Performance Period in accordance with the Plan. In determining the level of performance achieved and the number of Restricted Stock Units earned (assuming performance is above the threshold level), the Compensation Committee will interpolate between 0.5x (for Cumulative Adjusted EBITDA) and 0.5x (for rTSR) and 2.0x of the Target amount of Restricted Stock Units.

For the purposes of this Agreement, “*Cumulative Adjusted EBITDA*” is total aggregated Adjusted EBITDA earned by the Company during the three years of the Performance Period determined by comparing the total cumulative Adjusted EBITDA over the Performance Period against the resulting cumulative EBITDA results.

For the purposes of this Agreement, “*Relative Total Shareholder Return*” means the difference in the compound annual growth in starting stock price (12/31/2020) and ending stock price (12/31/2023) plus reinvestment of dividends on the ex-dividend rate compared to the specified performance peer group, with the payout based on Kraton’s percentile rank relative to the performance peer group. The relative Total Shareholder Return peer group is listed below:

Albemarle Corp.	FutureFuel Corp	PQ Group Holdings Inc.
Ashland Global Holdings Inc.	GCP Applied Technologies Inc.	PPG Industries Inc.
Avient Corporation	H.B. Fuller Co.	Quaker Chemical Corporation
Axalta Coating Systems Ltd.	Huntsman Corp	Rayonier Advanced Materials Inc.
Balchem Corp	Ingevity Corp	RPM International Inc.
Celanese Corp	Innospec, Inc.	Sensient Technologies Corp.
Chase Corp	International Flavors & Fragrances, Inc.	Stepan Company
DuPont de Nemours, Inc.	Livent Corporation	The Chemours Company
Eastman Chemical Company	Minerals Technologies, Inc.	The Sherwin-Williams Company
Ecolab Inc	NewMarket Corporation	Trinseo S.A.
Element Solutions Inc.		W.R. Grace & Co.
Ferro Corporation		

* Redacted due to competitive sensitivity.

EMPLOYEE CONFIDENTIALITY AND NON-COMPETITION AGREEMENT

THIS EMPLOYEE CONFIDENTIALITY AND NON-COMPETITION AGREEMENT (this “*Agreement*”) is made and entered into this ____ day of _____, 2017 (the “Effective Date”), by and between Kraton Corporation (“*Parent*”), a Delaware corporation, Kraton Polymers U.S. LLC (the “*Company*”) ¹, a Delaware limited liability company and wholly-owned subsidiary of Parent and _____ (“*Employee*”).

[**Existing Employees:** Employee has been employed by the Company since [_____]. Concurrently with the execution and delivery of this Agreement, Company agrees to continue to employ Employee, and Employee agrees to continue employment with the Company, on the following terms and conditions:]

[**New Employees:** The Company agrees to employ Employee, and Employee accepts employment with the Company, on the following terms and conditions:]

[**for new employees:** agrees [for current employees: agrees to continue to employ Employee, and Employee agrees to continue employment with the Company,] on the following terms and conditions:

ARTICLE I DEFINITIONS

In addition to the terms defined in the body of this Agreement, for purposes of this Agreement, the following capitalized words shall have the meanings indicated below.

1.1 “**Competitive Business**” means the development, manufacture, license, sale or provision of products or services that the Kraton Group (as defined below) currently, or at any time during the Employee’s employment with the Company, sells, manufactures, licenses or provides, or has specific plans to do so, including without limitation styrenic block copolymers made by anionic polymerization and high value products primarily derived from pine wood pulping co-products.

1.2 “**Confidential Information**” includes, but is not limited to trade secrets and other confidential and proprietary information received or developed by the Kraton Group (including such information received or developed by Employee during his employment with Company) relating to the Kraton Group’s customers and/or in connection with the business of the Kraton Group, including without limitation, customer lists, development programs, costs, marketing, trading, investment, sales, activities, promotion, credit and financial data, manufacturing processes, financing methods, plans, contract terms and conditions and related information, information describing the needs of the Kraton Group’s customers, formulas, devices or compilations of information which are used in the business of the Kraton Group and which give the Kraton Group an opportunity to obtain an advantage over others who do not know or use such information, financial information, marketing plans, designs, specifications for hardware

¹ Revise as appropriate to employing entity.

and systems, software programs, engineering and other technical data, ideas and special expertise relating to the business of the Kraton Group, their customers and suppliers and other information and materials which have been or may be identified by the Kraton Group, their customers or suppliers as confidential or which Employee has reason to believe is being maintained in confidence, as well as information concerning the business of the Kraton Group generally. Confidential Information does not include any item of such information which, prior to Employee's receipt thereof: (i) was generally known to the public (other than as a result of a breach of this covenant by Employee), or (ii) was acquired by Employee from a third party, provided such third party, in providing the information to Employee, did not impose an obligation of confidentiality and has not breached any other agreement or acted in derogation of any duty owed to the Kraton Group, its customers or suppliers.

1.3 **"Kraton Group"** means the Company, the Parent, and each of Parent's other direct and indirect owned affiliates and subsidiaries including, without limitation, Kraton Company LLC.

ARTICLE II

PROTECTION OF INFORMATION

2.1 **Acknowledgement of Confidential Information of the Company.** In order to develop Employee's skills and enable Employee to perform his duties, Employee acknowledges that the Kraton Group hereby agrees to, after execution of this Agreement and throughout Employee's employment, to provide Employee with Confidential Information as defined above. By signing this Agreement, Employee acknowledges delivery and receipt of Confidential Information. Employee acknowledges that thereafter Employee will be making use of, acquiring, accessing and/or adding to such Confidential Information. Employee recognizes that access to and knowledge of Confidential Information is essential to the performance of his duties with the Kraton Group. Employee acknowledges and agrees that the Confidential Information is a valuable, special, and unique asset of the Kraton Group and such Confidential Information is extremely important in the highly competitive industries in which the Kraton Group conducts business. Employee acknowledges that the disclosure of any Confidential information will cause imminent harm and substantial, irreparable injury, including loss of profit and other damages such as loss of goodwill and a decrease in market share which are difficult to calculate. Employee acknowledges that the Kraton Group retains a proprietary interest in its Confidential Information that persists beyond the termination of Employee's employment.

2.2 **Obligation to Maintain the Secrecy of Confidential Information.**

(a) As a material inducement to the Kraton Group to provide Confidential Information to Employee and otherwise enter into the employment relationship, Employee agrees:

(i) To keep the Confidential Information secret and confidential at all times and not at anytime, during his employment by the Company or following such employment, to disclose or allow the disclosure of any Confidential Information to any person,

firm or corporation except to the extent necessary to permit Employee to act within the ordinary course of Employee's assigned duties for the benefit of the Kraton Group; and

(ii) Not to use, misuse or misappropriate any Confidential Information for his own benefit or the benefit of any person, firm or corporation other than the Kraton Group.

(b) Without limiting the foregoing, Employee understands and agrees that he will not communicate or divulge, disclose or furnish, except to the Kraton Group, the names and addresses of any customers or prospective customers, or any information concerning any of the Kraton Group's customers or prospective customers. Employee further acknowledges that the Confidential Information is the sole property of the Kraton Group, or their customers or suppliers. Notwithstanding anything herein to the contrary, nothing in this Agreement shall (i) prohibit the Employee from making reports of possible violations of federal law or regulation to any governmental agency or entity in accordance with the provisions of and rules promulgated under Section 21F of the Securities Exchange Act of 1934 or Section 806 of the Sarbanes-Oxley Act of 2002, or of any other whistleblower protection provisions of state or federal law or regulation, or (ii) require notification or prior approval by the Company of any reporting described in clause (i).

(c) At the termination of Employee's employment with the Company for any reason, (i) all Confidential Information as may be in Employee's possession, or over which Employee may have control, and all other documents, data, records, materials, notes, reports and other property of the Kraton Group provided to Employee during the course of Employee's employment, regardless of whether prepared by Employee, shall be returned by Employee to the Company immediately, with no request being required (and Employee shall not retain, recreate or deliver to anyone else such information); and (ii) all computer and computer-related equipment and software, and all property, files, records, documents, drawings, specifications, lists, equipment, and similar items relating to the business of the Kraton Group, whether prepared by Employee or otherwise, coming into Employee's possession and/or control shall remain the exclusive property of the Kraton Group, and shall be delivered by Employee to the Company immediately, with no request being required (and Employee shall not retain, recreate or deliver to anyone else such information). The restrictions of this Section 2.2 are in addition to and not in lieu of protections afforded to the trade secrets and confidential information of the Kraton Group under applicable state and/or federal laws.

ARTICLE III INVENTIONS

3.1 Inventions by Employee.

(a) Prior Inventions. Employee has attached hereto, as Exhibit A, a list describing all material creations, inventions, and developments which were created or contributed to by Employee either solely or jointly with others prior to Employee's employment with the Company which relate to the Kraton Group's proposed or current business, services, products or research and development (collectively referred to as "Prior Inventions"). If no such list is attached, Employee either will advise the Company that Prior Inventions exist but cannot

be disclosed because of prior existing confidentiality obligations or, absent such advice, will be understood to represent that there are no such Prior Inventions. If in the course of Employee's employment with the Company, Employee uses or relies upon a Prior Invention, or any works of authorship (including software, related items, data bases, documentation, site content, text or graphics), developments, improvements or trade secrets which were created or contributed to by Employee either solely or jointly with others prior to Employee's employment with the Company ("Prior Intellectual Property") in Employee's creation or contribution to any work of authorship, invention, product, service, process, machine or other property of the Kraton Group, Employee will inform the Company promptly and, upon request, use Employee's best efforts to procure any consents of third parties necessary for the Kraton Group's use of such Prior Intellectual Property. To the fullest extent permissible by law, and to the extent not in contravention of any prior legal obligation of Employee to others all of which are disclosed to the Company on Exhibit B, attached hereto, Employee hereby grants the Kraton Group a non-exclusive royalty-free, irrevocable, perpetual, worldwide license under all of Employee's Prior Inventions to make, have made, copy, modify, distribute, use and sell works of authorship, products, services, processes and machines and to otherwise operate the Kraton Group's current and future business.

(b) During Employee's employment by the Company, Employee may, alone or with others, during or outside regular business hours and with or without the use of the Kraton Group's equipment, supplies, facilities or any of the Confidential Information, develop ideas, works of authorship, inventions, improvements upon products, or discoveries which (i) relate at the time of their conception or reduction to practice to the Kraton Group's business, or actual or anticipated research or development by the Kraton Group, or (ii) which result from work performed by Employee for the Kraton Group. (All of the foregoing are collectively referred to as the "**Inventions**".) Employee agrees that all Inventions are the sole and exclusive property of the Kraton Group and that the Kraton Group shall have the sole right to use the Inventions. Employee further hereby unconditionally assigns and agrees to assign to the Kraton Group all rights, title and interests of Employee in and to all Inventions. Employee hereby grants to the Kraton Group the sole right to apply for, obtain and register patents, utility models, design rights, copyrights and/or trade secret protection or any other available legal protection (collectively called "**Legal Protection**") for the Inventions and the Kraton Group's ownership thereof in the United States and throughout the world and to use transfer or grant licenses to others under all such Legal Protection. Employee further agrees to provide all possible assistance to the Kraton Group and to execute all documents, agreements, notices, assignments and other written materials and perform all acts required by the Kraton Group from time to time to enable the Kraton Group to fully enforce its legal rights to the Inventions in the United States and throughout the world, including, without limitation, all documents and actions, including, without limitation, information and testimony which the Kraton Group deems necessary for (1) the unconditional assignment of all of Employee's interests in the Inventions to the Kraton Group and the vesting of title to the Inventions solely in the Kraton Group, and (2) the preparation, application, prosecution, issuance, procurement, perfection, maintenance and preservation of Legal Protection for the Inventions.

(c) Employee will promptly and fully inform and disclose to his supervisor, in writing, in detail, all inventions developed by Employee and Employee agrees to treat all

Inventions as Confidential Information and to maintain the secrecy of those Inventions pursuant to the requirements of Article II. Employee further agrees to maintain complete records of all his creative or inventive activities and to deliver such records to the Company at the termination of employment or as requested by the Company.

ARTICLE IV

COVENANTS AGAINST COMPETITION

4.1 **Non-Competition and Non-Solicitation.** (a) Employee acknowledges that in connection with his employment, he has and will continue to have access to specialized knowledge of the market analyses, marketing practices, technology, clients and prospective clients of the Kraton Group, and other Confidential Information, goodwill and trade secrets that were among the assets of the Kraton Group prior to the Effective Date. Employee acknowledges his expertise and specialized knowledge of research and development, and other Confidential Information. Employee will continue to obtain and develop specialized knowledge of Confidential Information and the business of the Kraton Group through his continued involvement in the business of the Kraton Group, including his employment under this Agreement, and that such Confidential Information will enable Employee to irreparably injure the Kraton Group if Employee should engage in unfair competition. The Kraton Group's promise to provide Employee with this Confidential Information is an essential part of the Company's agreement to employ Employee pursuant to this Agreement.

(b) Ancillary to and in consideration of the Company's promises and undertakings in this Agreement, including, without limitation, Employee's continuing employment with the Company, any future job transfers or promotions, salary continuation under the Parent's Executive Severance Program, the promise to provide specialized training and knowledge, the promise to provide Employee access to and control of Confidential Information that the Kraton Group will continue to develop and/or receive and that Employee will have access to during his employment with the Company, and to ensure the protection of the Confidential Information during Employee's employment and thereafter, Employee agrees and covenants that during the period of his employment and until the date that is twelve (12) months after the termination of Employee's employment for any reason whatsoever, whether voluntary or involuntary (the "Restrictive Period") he will not, without the prior written approval of the Company:

(i) acquire a financial interest in, engage in, act for, be employed by, provide services to, or contract with, directly or indirectly (whether individually or as a partner, officer, manager, employee, agent, representative, director, owner, trustee, or other investor of or in, whether as an independent contractor, consultant or advisor, or as a sales representative or distributor of any kind) with respect to a Competitive Business; provided that, notwithstanding the foregoing, Employee may be employed by, provide services to, or contract with a Competitive Business so long as Employee adheres to the restrictions outlined below in Section 4.1(b)(v).

(ii) solicit or encourage, directly or indirectly and in any capacity, any employee of the Kraton Group to leave the employment of the Kraton Group;

(iii) employ or solicit for employment, directly or indirectly and in any capacity, any person who was an employee of the Kraton Group during the 6-month period preceding the date of Employee's termination from the Kraton Group, unless such employee was no longer employed by the Kraton Group and is not subject to a non-competition or similar agreement in favor of the Kraton Group at the time of the solicitation and/or employment; and

(iv) solicit or encourage, directly or indirectly and in any capacity, any individual consultant then under contract with the Kraton Group to cease work with the Kraton Group;

(v) contact, directly or indirectly and in any capacity, any customer, supplier, contractor or subcontractor or prospective customer, supplier, contractor or subcontractor of the Kraton Group (1) with whom Employee has had contact on behalf of the Kraton Group during the 12-month period preceding the date of Employee's termination, or (2) about whom Employee has obtained Confidential Information in connection with such Employee's employment during such 12-month period, or (3) with whom employees reporting to Employee have had personal contact or dealings on behalf of the Kraton Group during the 12-month period preceding the date of Employee's termination, so as to cause or attempt to cause such customer, supplier, contractor or subcontractor or prospective customer, supplier, contractor or subcontractor not to do business with or to reduce business with the Kraton Group or divert any business from the Kraton Group with respect to a Competitive Business.

Nothing contained in this Section 4.1 shall prohibit Employee from (x) acquiring, solely as an investment and through market purchases, securities of any entity which is registered under Section 12(b) or 12(g) of the Securities and Exchange Act of 1934 and which are publicly traded, so long as Employee is not part of any control group of such entity and such securities, including converted securities, do not constitute more than 1% of the outstanding voting power of that entity; or (y) rendering services to any company that derives less than 10% of its revenues from a Competitive Business (a "Permitted Company"), if such services or employment relate solely to a business of the Permitted Company that is not in competition with a Competitive Business.

Notwithstanding the foregoing, the restrictions set forth in Section 4.1(b)(i) shall not apply if the benefit amounts payable to Employee as a Participant in the Kraton Corporation Executive Severance Program in the event of Employee's termination of employment from the Company are materially reduced after the Effective Date.

4.2 **Reasonableness; Enforcement.**

(a) Employee and the Company agree and acknowledge that the limitations as to time and scope of activity to be restrained as set forth in Section 4.1 hereof are reasonable in light of the nature and geographic scope of the operations of the Kraton Group, Employee's level of control over and/or contact with the Kraton Group business in all jurisdictions in which it is conducted, and the nature and amount of compensation, trade secrets and Confidential Information that Employee is receiving in connection with the performance of Employee's duties hereunder. Employee agrees and acknowledges that the restrictions set forth in Section 4.1 do not impose any greater restraint than is necessary to protect the legitimate business interests of

the Kraton Group, including its interest in developing and protecting its business goodwill and to ensure the protection of its and its affiliates' technology and other Confidential Information. Employee acknowledges that the duration of the covenants contained in this Article IV are the result of arm's-length bargaining and that the consideration provided and promises made by the Company herein constitute an otherwise enforceable agreement to which the terms of this Article IV are ancillary.

(b) Employee acknowledges and recognizes the highly competitive nature of the businesses of the Kraton Group and agrees that competition by Employee in the manner and circumstances set forth in Section 4.1 in violation of this Article IV would cause irreparable injury to the Company and the Kraton Group; and, therefore, the temporal and geographic scope of this Article IV is reasonable and necessary to prevent such injury.

(c) It is specifically agreed that the period specified in Section 4.1 shall be computed by excluding from that computation any time during which Employee is in violation of any provision of Section 4.1.

4.3 **Modification of Restrictions.** It is the desire and intent of the parties that the provisions of this Article IV be enforced to the fullest extent permitted under applicable law, whether now or hereafter in effect. Therefore, if any of the aforesaid restrictions are found by a court of competent jurisdiction to be unreasonable, overly broad as to time, or otherwise unenforceable, the parties intend for the restrictions herein set forth to be modified by the court making such determination so as to be reasonable and enforceable and, as so modified, to be fully enforced. By agreeing to this contractual modification prospectively at this time, the Company and Employee intend to make this provision enforceable under the law or laws of all applicable jurisdictions so that the entire agreement not to compete and this Agreement as prospectively modified shall remain in full force and effect and shall not be rendered void or illegal. Such modification shall not affect the payments made to Employee under this Agreement.

4.4 **Notification of Restrictions to Third Parties.** (a) If during the Restrictive Period set forth in Section 4.1 above, Employee enters into an employment consulting or independent contractor relationship with any third party, Employee agrees to provide the Company with written notice of Employee's job responsibilities within five (5) business days of Employee's acceptance of employment (or other relationship) ("Employment Notice"). The Employment Notice shall include (i) a description of the duties and responsibilities of the proposed position, (ii) the identity of the employer(s) and whether the employer(s) is involved in a Complete Business, and (iii) the territory in which Employee will be working. If Employee fails to timely provide the required Employment Notice, the parties agree and acknowledge that the Company is entitled to presume that Employee's employment or other arrangement with a third party violates the terms of this Agreement and the Company will be authorized to seek immediate injunctive relief as set forth herein.

(b) Employee agrees that the Company may notify any person or entity employment or contracting with Employee or evidencing an intention of employing or contracting with Employee of the existence and provisions of this Agreement.

ARTICLE V

MISCELLANEOUS

5.1 Absence of Restrictions.

(a) Employee represents that:

(i) he does not have in his possession any written materials embodying information known or claimed to be the proprietary or confidential information of any other person, firm or corporation, including, without limitation, any prior employer;

(ii) he does not have in his possession any written material of any kind which has been removed from the premises of a former employer without the written consent of that employer;

(iii) to his knowledge, his employment with the Company will not require him to use or disclose any proprietary or confidential information of any person, firm or corporation, and that he will not use or disclose any proprietary or confidential information of any other person, firm or corporation; and

(iv) he will not disclose, in connection with his employment by the Company, information obtained from any other person, firm or corporation, including, without limitation any former employer, which Employee knows or has reason to know is confidential or proprietary.

(b) Employee represents and warrants that Employee knows of no reason that Employee cannot legally enter into this Agreement and perform the services contemplated by this Agreement. Specifically, Employee represents and warrants that Employee is not a party to any agreement with a former employer containing any post-employment restrictions, noncompetition provisions or any other restrictive covenants with respect to (i) the rendition of any personal services that Employee is expected to perform or conduct, (ii) the disclosure or use of any information which, directly or indirectly, relates to the business of the Company or the services to be rendered by Employee, or (iii) any other obligation which would impact or restrict Employee's employment by the Company or the performance of Employee's duties.

5.2 At-Will Employment. Employee acknowledges that the Employee may terminate Employee's employment with the Company or be terminated by the Company with or without cause and with or without notice at the option of the Employee or the Company. Employee understands that no supervisor, manager or representative other than the Company's Chief Executive Officer has any authority to enter into any agreements with Employee for employment for any specified time period or to make any oral or written promises or agreements contrary to this Section 5.2. Further, any agreement purporting to limit the at-will nature of an employee's employment with the Company entered into by the Chief Executive Officer shall not be enforceable unless it is in writing. **[CURRENT EMPLOYEES: For the avoidance of doubt, as of the Effective Date, any prior written or unwritten employment agreement**

between the Company and the Employee shall be deemed terminated and superseded by this Agreement, and shall thereafter be of no further force or effect.]

5.3 **Notices.** For purposes of this Agreement, notices and all other communications provided for herein shall be in writing and shall be deemed to have been duly given (a) when received if delivered personally or by courier, (b) on the date receipt is acknowledged if delivered by certified mail, postage prepaid, return receipt requested or (c) one day after transmission if sent by facsimile transmission with confirmation of transmission, as follows:

If to Employee, addressed to the most recent address of Employee set forth in the personnel records of the Company.

If to the Company, addressed to: Kraton Polymers U.S. LLC
15710 John F. Kennedy Blvd.
Suite 300
Houston, TX 77032
Attention: Legal Department

or to such other address as either party may furnish to the other in writing in accordance herewith, except that notices or changes of address shall be effective only upon receipt.

5.4 **Remedies.** Employee and the Company acknowledge that money damages would not be sufficient remedy for any breach of Articles II, III or IV by Employee, and the Company or its affiliates shall be entitled to enforce the provisions of Article II, III or IV by specific performance and by temporary restraining order, preliminary injunction or other equitable relief as remedies for such breach or any threatened breach. Such remedies shall not be deemed the exclusive remedies for a breach of Articles II, III or IV, but shall be in addition to all remedies available at law or in equity, including the recovery of damages from Employee and Employee's agents.

5.5 **Applicable Law; Submission to Jurisdiction.**

(a) This Agreement is entered into under, and shall be governed for all purposes by, the laws of the State of Texas, without regard to conflicts of laws principles thereof.

(b) Each party hereto expressly and irrevocably agrees: (a) that it waives any objection, and specifically consents, to venue in the Federal or State courts located in Houston, Texas, so that any action at law or in equity may be brought and maintained in any such court; and (b) that service of process in any such action may be effected against such party in any manner permitted by applicable Federal Rules of Civil Procedure or Rules of the Courts of the State of Texas. In addition, each party hereto expressly and irrevocably waives, in respect of any action brought in any Federal or State court located in Houston, Texas, or any resulting judgment, any objection, and hereby specifically consents, to the personal and subject matter jurisdiction of any such court, and agrees not to seek to change the situs of such action or to assert that any other court in any other jurisdiction is a more suitable forum for the hearing and adjudication of any claim or dispute raised in such action.

5.6 **No Waiver.** No failure by either party hereto at any time to give notice of any breach by the other party of, or to require compliance with, any condition or provision of this Agreement shall be deemed a waiver of similar or dissimilar provisions or conditions at the same or at any prior or subsequent time.

5.7 **Severability.** If a court of competent jurisdiction determines that any provision of this Agreement is invalid or unenforceable, then the invalidity or unenforceability of that provision shall not affect the validity or enforceability of any other provision of this Agreement, and all other provisions shall remain in full force and effect.

5.8 **Counterparts.** This Agreement may be executed in one or more counterparts, each of which shall be deemed to be an original, but all of which together will constitute one and the same Agreement.

5.9 **Headings.** The Section headings have been inserted for purposes of convenience and shall not be used for interpretive purposes.

5.10 **Successors.** This Agreement shall be binding upon and inure to the benefit of the Kraton Group and their respective successors and assigns. The Company may also assign its rights and obligations under this Agreement to any entity which, directly or indirectly, controls, is controlled by, or is under common control with, the Company and/or the Parent. The Employee may not assign the Employee's rights or obligations under this Agreement to any individual or entity without the written consent of the Company.

5.11 **Survival.** The provisions of this Agreement shall survive any termination of Employee's employment relationship with the Company.

5.12 **Entire Agreement.** This Agreement constitutes the entire agreement of Employee and the Company or any entity of the Kraton Group with regard to the subject matter hereof, and contains all the covenants, promises, representations, warranties and agreements between the parties with respect to employment of Employee by the Company. Without limiting the scope of the preceding sentence, all understandings and agreements preceding the date of execution of this Agreement and relating to the subject matter hereof are hereby null and void and of no further force and effect.

5.13 **Modification; Waiver.** Except as otherwise provided in Section 4.3, any modification to or waiver of this Agreement shall be effective only if it is in writing and signed by the parties to this Agreement.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement on the date first above written.

KRATON POLYMERS U.S. LLC

By: _____

Name: _____

Title: _____

KRATON CORPORATION

By: _____

Name: _____

Title: _____

[EMPLOYEE]

KRATON CORPORATION

List of Significant Subsidiaries as of December 31, 2020⁽¹⁾

	<u>Jurisdiction of Organization</u>
Kraton Polymers Holdings B.V.	Netherlands Antilles
Kraton Polymers LLC	Delaware
Kraton Polymers U.S. LLC	Delaware
Kraton Chemical, LLC	Delaware
Kraton Chemical B.V.	Netherlands

(1) Listing includes only doing business names and does not include trade names.

Consent of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders
Kraton Corporation:

We consent to the incorporation by reference in the registration statements (No. 333-163893, No. 333-211817, No. 333-216223, No. 333-225663, and No. 333-230918) on Form S-8 and in the registration statement (No. 333-223096) on Form S-3 of Kraton Corporation of our report dated February 26, 2021, with respect to the consolidated balance sheets of Kraton Corporation as of December 31, 2020 and 2019, the related consolidated statements of operations, comprehensive income (loss), changes in equity, and cash flows for each of the years in the three-year period ended December 31, 2020, and the related notes and financial statement schedule II - Valuation and Qualifying Accounts and Reserves, and the effectiveness of internal control over financial reporting as of December 31, 2020, which reports appear in the December 31, 2020 annual report on Form 10-K of Kraton Corporation.

Our report dated February 26, 2021 refers to a change in method of accounting for leases.

(signed) KPMG LLP

Houston, Texas
February 26, 2021

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