Kraton Performance Polymers, Inc.
Form 10-K
February 25, 2015

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

FORM 10-K

x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2014

or

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

Commission file number
001-34581

KRATON PERFORMANCE POLYMERS, INC.
(Exact Name of Registrant as Specified in its Charter)

| | |
|---|---|
| Delaware | 20-0411521 |
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification No.) |
| 15710 John F. Kennedy Blvd, Suite 300 Houston, TX 77032 | 281-504-4700 |
| (Address of principal executive offices, including zip code) | (Registrant's telephone number, including area code) |

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

| | |
|---|---|
| Title of Each Class | Name of Each Exchange on Which Registered |
| Kraton Performance Polymers, Inc. Common Stock, par value $0.01 | 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 o NO x
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 o NO x
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 x NO o
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES x NO o
Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o

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

| | | | |
|---|---|---|---|
| Large accelerated filer: | x | Accelerated filer: | o |
| Non-accelerated filer: | o | Smaller reporting company: | o |

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

Estimated aggregate market value of the common equity held by nonaffiliates of Kraton Performance Polymers, Inc. at June 30, 2014: $726,003,519. Number of shares of Kraton Performance Polymers, Inc. Common Stock, $0.01 par value, outstanding at February 23, 2015: 31,505,059.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of Kraton Performance Polymers, Inc.’s proxy statement for the 2015 Annual Meeting of Shareholders are incorporated by reference in Part III.

Index to Annual Report
on Form 10-K for
Year Ended December 31, 2014

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION

Some of the statements in this Annual Report on Form 10-K under the headings "Business," "Risk Factors," "Selected Financial Data," "Management's Discussion and Analysis of Financial Condition and Results of Operations," "Financial Statements and Supplementary Data" and elsewhere 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 periodic 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 "believes," "estimates," "expects," "projects," "may," "intends," "plans" or "anticipa by discussions of strategy, plans or intentions; anticipated benefits of or performance of our products; beliefs regarding opportunities for new, high-margin applications and other innovations; 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, capital expenditures, benefit plan contributions, and income tax obligations; our anticipated 2015 capital expenditures, compliance with the MACT rule, health, safety and environmental 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 our counterparties' ability to perform, including with respect to trade receivables; estimates regarding the tax expense of repatriating certain cash and short-term investments related to foreign operations; expectations regarding high-margin 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 for fiscal year 2015; estimates or expectations related to monomer costs, ending inventory levels and related estimated charges; the outcome and financial impact of legal proceedings; expectations regarding the spread between FIFO and ECRC in future periods; the estimates and matters described under the caption "Item 7. Management's Discussion and Analysis—Results of Operations—Outlook;" and projections regarding environmental costs and capital expenditures and related operational savings. Such 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 are set forth in this report, including but not limited to those under the heading "Risk Factors." 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.

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

Presentation of Financial Statements.

The terms "Kraton," "our company," "we," "our," "ours" and "us" as used in this report refer collectively to Kraton Performan Polymers, Inc. and its consolidated subsidiaries.

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

PART I

Item 1. Business.

General

Our Company

We are a leading global producer of styrenic block copolymers (“SBCs”) and other engineered polymers. SBCs are highly-engineered synthetic elastomers, which we invented and commercialized almost 50 years ago. We developed the first USBC polymers in 1964 and the first HSBC polymers in the late 1960s. Our SBCs enhance the performance of numerous products by imparting greater flexibility, resilience, strength, durability and processability.

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 refer to these complex or specialized polymers or innovations as being more “differentiated.” In 2014, 56.6% of our revenue was derived from innovation-driven and differentiated products, with 40.0% derived from differentiated grades and 16.6% derived from innovation grades.

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

We also produce Cariflex™ isoprene rubber and isoprene rubber latex. Our Cariflex products are highly-engineered, non-SBC synthetic substitutes for natural rubber and natural rubber latex. Our Cariflex products, which have not been found to contain the proteins present in natural rubber latex and are, therefore, not known to cause allergies, are used in applications such as surgical gloves and condoms. We believe the versatility of Cariflex products provides opportunities for new, high margin applications.

We have a portfolio of innovations at various stages of development and commercialization, including

- polyvinyl chloride alternatives for wire and cable, and medical applications;
- polymers and compounds for soft skin and coated fabric applications for transportation and consumer markets;
- highly-modified asphalt ("HiMA") for high-performance paving applications;
- NEXAR™ family of membrane polymers for heating, ventilation, air conditioning and breathable fabrics; and
- synthetic cement formulations and polymers used for viscosity modification in oilfield applications.

We have had a long-standing relationship with many of our customers and work closely with our customers to design products that meet application-specific performance and quality requirements. We have a diverse customer base, with no single customer accounting for more than 10.0% of our revenue in 2014 and our top 10 customers together representing approximately 31.7% of our revenue in 2014. Because of the technical expertise and investment required to develop many of our product formulations and the lead times required to replace them, we believe many of our customers would likely incur additional costs by changing to an alternative vendor.

We generated $1,230.4 million of revenue and 305.6 kilotons of sales volume for the year ended December 31, 2014. Our customers are diversified by industry and geography with more than 800 customers in over 60 countries. Our total SBC production capacity as of December 31, 2014 was approximately 417 kilotons. Production capacity at our facilities can vary greatly depending upon feedstock, product mix and operating conditions. We manufacture our polymers at five manufacturing facilities globally, including our flagship facility in Belpre, Ohio, as well as facilities in Germany, France, Brazil, and Japan. The facility in Japan is operated by an unconsolidated manufacturing joint venture.

Over the past several years, we have implemented a range of strategic initiatives designed to enhance our profitability and market position, with a focus on increasing our scale and optimizing our manufacturing footprint, particularly in Asia. These include fixed asset investments to expand our capacity in specialized products and enhance productivity at our existing facilities, our 50% investment in our joint venture, Kraton Formosa Polymers Corporation (“KFPC”), located in Mailiao,

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Taiwan, and fixed costs management through headcount reductions, production line closures at our facility in Pernis, Netherlands, and system upgrades. During this period, we shifted our focus from lower margin business, and we implemented pricing strategies designed to enhance our overall margins and return on invested capital. With the commercialization of newer innovations such as HiMA and increasing sales of Cariflex™ and products for oilfield service applications, our strategy is focused on continuing to advance our portfolio of differentiated products, while, at the same time, expanding sales of our core product grades.

Corporate History

Prior to our initial public offering and related reorganization transactions in December 2009, we were an indirect wholly-owned subsidiary of TJ Chemical Holdings LLC and were indirectly owned by certain affiliates of TPG Capital, L.P., which we refer to collectively as "TPG," and certain affiliates of J.P. Morgan Partners, LLC, which we refer to collectively as "JPMP," and certain members of our management. We conduct our business through Kraton Polymers LLC and its consolidated subsidiaries. Prior to our initial public offering, Kraton Polymers LLC's parent company was Polymer Holdings LLC, a Delaware limited liability company. On December 16, 2009, Polymer Holdings LLC was converted from a Delaware limited liability company to a Delaware corporation and renamed Kraton Performance Polymers, Inc., which remains Kraton Polymers LLC's parent company. In addition, prior to the closing of the initial public offering, TJ Chemical was merged into (and did not survive the merger with) Kraton Polymers LLC. Our initial public offering was completed, and trading in our common stock on the New York Stock Exchange commenced, in December 2009. TPG and JPMP collectively owned a majority of our common stock following the initial public offering, and through two secondary public offerings conducted in September 2010 and April 2011, sold all of their holdings in our common stock.

Recent Developments

Sales and Marketing Realignment. We historically aligned our commercial activities around four end use markets: Advanced Materials; Adhesive, Sealants and Coatings; Paving and Roofing; and Cariflex™. In 2014, we realigned our sales and marketing organization, moving from an end use focus to an organization structured around three product groups: Performance Products, which is comprised of our unhydrogenated styrenic block copolymers ("USBC's"); Specialty Polymers, which is comprised of our hydrogenated styrenic block copolymers ("HSBC's"); and Cariflex, which continues to be comprised of our isoprene rubber ("IR") and isoprene rubber latex ("IRL"). We believe the alignment along product groups will foster increased collaboration between our sales and marketing and research and technical service organizations and allow us to better meet diverse customer needs as we continue our strategy of driving innovation while increasing our competitive position in our core businesses.

Share Repurchase Program. On October 27, 2014, our board of directors approved a share repurchase program through which we may repurchase outstanding shares of our common stock having an aggregate purchase price of up to $50.0 million. We intend to finance the share repurchase program through a combination of cash and debt. We plan to repurchase shares of our common stock over the next two years in the open market at prevailing market prices, through privately negotiated transactions, or through a trading program under Rule 10b5-1, subject to market and business conditions, applicable legal requirements and other considerations. Through December 31, 2014, we have repurchased a total of 998,080 shares of our common stock at an average price of $18.69 per share and a total cost of $18.6 million (excluding trading commissions). We are not obligated to acquire any specific number of shares of our common stock.

Terminated Combination Agreement with SBC Business of LCY. On January 28, 2014, we executed a definitive agreement (the "Combination Agreement") to combine with the styrenic block copolymer ("SBC") operations of Taiwan-based LCY Chemical Corp. ("LCY"). The Combination Agreement called for LCY to contribute its SBC business in exchange for newly issued shares of capital stock in the combined company, such that our existing stockholders and LCY would each own 50% of the outstanding shares of capital stock of the combined enterprise. On June 30, 2014, we notified LCY that our Board of Directors intended to withdraw its recommendation to our stockholders to approve the Combination Agreement unless the parties could agree upon mutually acceptable revised terms to the Combination Agreement. This notice cited the decline in operating results for LCY's SBC business in the first quarter of 2014 and a related decline in forecasted results thereafter, together with the decline in our stock price and negative reactions from our stockholders. Following our notification of our Board's intention to change its recommendation, the parties engaged in discussions to determine whether they could mutually agree to changes to the

terms of the Combination Agreement that would enable our Board to continue to recommend that our stockholders approve the Combination Agreement. The parties engaged in numerous discussions subsequent to June 30, 2014 regarding possible revisions to the terms of the Combination Agreement.

On July 31, 2014, an explosion occurred in a pipeline owned by LCY in Kaohsiung, Taiwan, causing substantial property damage and loss of life, and numerous governmental and private investigations and claims have been initiated and asserted against LCY. On August 4, 2014, LCY notified us that it would no longer negotiate, and it would not agree to, any

revisions to the terms of the Combination Agreement. On August 6, 2014, our Board withdrew its recommendation that our stockholders approve the Combination Agreement. On August 8, 2014, we received notice from LCY that LCY had exercised its right to terminate the Combination Agreement.

The provisions of the Combination Agreement provide for us to pay LCY a $25.0 million break-up fee upon a termination of the Combination Agreement following a withdrawal of our Board's recommendation, unless an LCY material adverse effect has occurred and is continuing at the time of the withdrawal of the Board's recommendation. In LCY's notice terminating the Combination Agreement, LCY requested payment of such $25.0 million termination fee. On October 6, 2014, LCY filed a lawsuit against us in connection with our refusal to pay the $25.0 million termination fee. We believe that the impact upon LCY of the July 31, 2014 explosion in a gas pipeline in Kaohsiung, Taiwan, constitutes an LCY material adverse effect as defined in the Combination Agreement, and we have notified LCY that accordingly we are not obligated to pay the termination fee. While the ultimate resolution of this matter cannot be predicted with certainty, we do not expect any material adverse effect upon our financial position, results of operations or cash flows from the ultimate outcome of this matter.

KFPC loan agreement. On July 17, 2014, KFPC executed a syndicated loan agreement (the "KFPC Loan Agreement") in the amount of 5.5 billion New Taiwan Dollars ("NTD"), or $173.1 million (converted at the December 31, 2014 exchange rate), to provide additional funding to construct the HSBC facility in Taiwan and to provide funding for working capital requirements and/or general corporate purposes. The KFPC Loan Agreement is comprised of a NTD 4.29 billion Tranche A, or $135.0 million (converted at the December 31, 2014 exchange rate), to fund KFPC's capital expenditures, and a NTD 1.21 billion Tranche B, or $38.1 million (converted at the December 31, 2014 exchange rate), to fund working capital requirements and/or general corporate purposes. Obligations under the KFPC Loan Agreement are guaranteed 50% by Formosa Petrochemical Corporation and 50% by Kraton Polymers LLC. See Note 6. Long Term Debt to the consolidated financial statements for further discussion of the KFPC Loan Agreement.

Products and Commercial Applications

Our products are high performance elastomers that are engineered for a wide range of applications. Our 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 soft touch and flexible materials, personal hygiene products, medical products, automotive components and certain adhesives and sealant applications. IR and IRL are non-SBC products which are primarily used in applications such as medical products, personal care, adhesives, tackifiers, paints and coatings.

Our products are manufactured and our commercial activities are organized in the following product groups based upon polymer chemistry and process technologies:

| | Revenue Mix ($ in millions) | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Product Groups | 2014 | | | 2013 | | | 2012 | | |
| Performance Products | $678.9 | 55.2 | % | $762.9 | 59.0 | % | $850.8 | 59.8 | % |
| Specialty Polymers | $412.4 | 33.5 | % | $412.0 | 31.9 | % | $464.3 | 32.6 | % |
| Cariflex | $138.6 | 11.3 | % | $116.0 | 9.0 | % | $105.9 | 7.4 | % |
| Other | $0.5 | — | % | $1.2 | 0.1 | % | $2.2 | 0.2 | % |

Performance Products. For the years ended December 31, 2014, 2013 and 2012, our Performance Products revenue included sales into the following product applications:

| | Performance Products Revenue Mix | | |
|---|---|---|---|
| Application: | 2014 | 2013 | 2012 |
| Paving | 26.0 % | 27.0 % | 31.0 % |
| Roofing | 18.0 % | 18.0 % | 18.0 % |
| Personal care | 20.0 % | 19.0 % | 17.0 % |
| Packaging & industrial adhesives | 19.0 % | 19.0 % | 18.0 % |
| Industrial | 7.0 % | 6.0 % | 6.0 % |
| Other | 10.0 % | 11.0 % | 10.0 % |

Our Performance Products impart characteristics such as:

- resistance to temperature and weather extremes in roads and roofing;
- resistance to cracking, reduced sound transmission and better drainage in porous road surfaces;
- impact resistance for consumer plastics; and
- increased processing flexibility in adhesive applications, such as packaging tapes and labels, and materials used in disposable diapers.

In paving and roofing applications, our Performance Products primarily compete with chemicals such as styrene-butadiene rubber latex, acetates, polyphosphoric acids and thermoplastic materials like ethylene-propylene-diene-monomer (“EPDM”), 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. Styrene-butadiene-styrene (“SBS”)-modified asphalt in roofing applications produces stronger and more durable felts and shingles, thus reducing the possibility of damage from weather, ice and water build-up and therefore extending service life. SBS modified asphalt pavements enhance the strength and elasticity of asphalt-based paving compositions over an extended temperature range, thus increasing resistance to wear, rutting and cracking and again extending service life. For example, our HiMA technology polymers provide better rut and cracking resistance than other elastic binders, while achieving 25-40% reduction in road thickness without any major sacrifice of viscosity or temperature performance. We believe this innovation will extend road life by allowing pavements to withstand heavy traffic loads and varying climate conditions.

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 acrylics, silicones and solvent-based rubber systems. 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 total end-product cost. Our SBCs are compatible with many other formulating ingredients. For example, we have expanded our offering of formulated compounds for adhesives for protective films that provide improved adhesive performance with no residue or haze after removal. 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 which are significantly more complex to produce than our Performance Products, which are USBC products. As a result, our Specialty Polymers generally generate higher margins than our Performance Products. For the years ended December 31, 2014, 2013 and 2012, our Specialty Polymers revenue included sales into the following product applications:

| | Specialty Polymers Revenue Mix | | |
|---|---|---|---|
| Application: | 2014 | 2013 | 2012 |
| Lubricant additives | 20.0 % | 16.0 % | 15.0 % |
| Polymer modification | 13.0 % | 13.0 % | 14.0 % |
| Personal care | 12.0 % | 16.0 % | 17.0 % |
| Cable gels | 9.0 % | 7.0 % | 8.0 % |
| Medical | 8.0 % | 8.0 % | 7.0 % |
| Adhesives and coatings | 7.0 % | 6.0 % | 6.0 % |
| Industrial | 5.0 % | 4.0 % | 5.0 % |
| Consumer | 4.0 % | 5.0 % | 5.0 % |
| Other | 22.0 % | 25.0 % | 23.0 % |

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 blades, 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

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 by the ability to balance performance characteristics such as ease of use, desired aesthetics, haptics, and managing total end product costs. Since many of our products are highly engineered and customized formulations, they require specialized product testing and validation, production and process evaluation. This results in a long lead time 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 where we can expand and/or have the potential to create new market spaces for our solutions.

Cariflex™. We market our IR and IRL products under the Cariflex brand name. These products combine the key qualities of natural rubber, such as good mechanical properties and hysteresis, with purity and clarity enhancements, good flow, low gel content, and absence of nitrosamines and natural rubber proteins. For the years ended December 31, 2014, 2013 and 2012, our Cariflex revenue included sales into the following product applications:

| | Cariflex Revenue Mix | | |
|---|---|---|---|
| Application: | 2014 | 2013 | 2012 |
| Medical | 94 % | 94 % | 92 % |
| Industrial | 6 % | 6 % | 8 % |

Isoprene rubber (formed from polymerizing isoprene) is a high purity, non-SBC product. Our IR polymers are available as bales of rubber or as latex. We focus our IR polymers in demanding applications such as medical products, paints, coatings and specialized footwear. Isoprene rubber latex (emulsion of IR in water) is a substitute for natural rubber latex, particularly in applications with high purity requirements, such as medical, healthcare, personal care and food contact operations. Our IRL is specialized polyisoprene latex with a controlled structure and low chemical impurity levels obtained

through an anionic polymerization process followed by a proprietary latex processing step, both of which were first developed by us. IRL is durable, tear resistant, soft, transparent and odorless. In addition, the synthetic material is non-allergenic and has superior consistency and other advantages to natural rubber latex. IRL is predominately used in synthetic surgical gloves and condoms.

Our products primarily compete with natural rubber, conventional Ziegler Natta sourced solid IR, halo butyl rubber and several synthetic latex alternatives, notably neoprene, nitrile and polychloroprene latex rubber, as well as polyurethane.

We have undertaken several projects to support anticipated continued growth in demand for our Cariflex™ products. In 2011, we commissioned a line conversion project at our Belpre, Ohio, facility, which now provides for production of IR and replaces production capacity at our former manufacturing facility in Pernis, Netherlands, which was closed in 2009. During 2011, we also successfully completed the expansion of our IRL capacity at our Paulinia, Brazil, facility. Further, we executed a contract with a supplier in Japan to expand manufacturing capacity for IRL. The first phase of this expansion was completed in January 2013 with the second phase expected to be completed in early 2016. The completion of both phases of the expansion will more than double our previous capacity in Japan.

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, with the majority of our products sold through our direct sales force. In smaller markets, we often utilize marketing representatives who act as independent contractors to sell our products and distributors to service our smaller customers. Distributors sell a wide variety of products, which allows smaller customers to obtain multiple products from one source. In addition to our long-term relationships with distributors in North America and Europe, we have established relationships with a wide network of distributors in Latin America and the Asia Pacific region.

Our direct sales force, marketing representatives and distributors interact with our customers to provide both product advice and technical assistance. In general, they arrange and 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.

Revenue from our customers outside the United States was approximately 69.1%, 69.1% and 67.2% of our total revenue for the years ended December 31, 2014, 2013 and 2012, respectively. Direct sales made outside of the United States are generally priced in local currencies and can be subject to currency exchange fluctuations when reported in our consolidated financial statements, which are maintained in U.S. dollars in accordance with U.S. generally accepted accounting principles ("GAAP"). For geographic reporting, revenue is attributed to the geographic location in which the customers' facilities are located. See Note 13 Industry Segment and Foreign Operations to the consolidated financial statements for geographic reporting of revenue and long-lived assets as of and for the years ended December 31, 2014, 2013 and 2012.

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

| Revenue by Geography: | 2014 | | 2013 | | 2012 | |
|---|---|---|---|---|---|---|
| Americas | 38.9 | % | 39.3 | % | 40.0 | % |
| Europe, Middle East and Africa | 36.4 | % | 38.7 | % | 39.1 | % |
| Asia Pacific | 24.7 | % | 22.0 | % | 20.9 | % |

Research, Development and Technology

Our research and development program is designed to develop new products and applications, provide technical service to customers, develop and optimize process technology, and assist in marketing new products. We spent $31.4 million, $32.0 million and $31.0 million for research and development for the years ended December 31, 2014, 2013 and 2012, respectively. We also engage in customer-sponsored research projects; with average spending of approximately $1.0 million a year for the three-year period ended December 31, 2014.

Our research and development activities are primarily conducted in laboratories in Houston, Texas, and Amsterdam, Netherlands. In 2014, we successfully launched a semi-works facility located at our production facility in Belpre, Ohio. We believe this will accelerate polymer development efforts and commercialization of products including the reduction of customer qualification lead times. We also anticipate utilizing the semi-works facility to produce small commercial quantities for customers which, prior to the launch of our semi-works facility were satisfied by the Belpre,

Ohio production assets. Utilizing the semi-works facility for such smaller quantities is more economical than producing small quantities on the larger-scale Belpre production lines. We also own a laboratory in Paulinia, Brazil, that provides technical services to our South American

customers. Our application and technical service laboratories in Shanghai, China, and Tsukuba, Japan, provide support to our Asian customers. In addition, we have technical service staff located in Mont St. Guibert, Belgium.

Our professionals perform research using scientific application equipment located primarily at our Houston, Belpre, Amsterdam, and Shanghai research and development facilities. At all of our major research and development facilities, we develop new Kraton product samples for our customers and provide guidance to our manufacturing organization. Application equipment is used to evaluate polymers and compounds to determine optimal formulations.

Sources and Availability of Raw Materials

We use butadiene, styrene and isoprene (also referred to as monomers) as our primary raw materials in manufacturing our products.

For our U.S. facilities, we procure a substantial majority of our monomers from U.S. suppliers. In Europe, we generally procure our monomers from regional suppliers, and in Brazil, we generally purchase all our raw materials from local third-party suppliers. In Japan, butadiene and isoprene are supplied under our joint venture agreement with JSR Corporation ("JSR") and styrene is sourced from local third-party suppliers. We believe our contractual and other arrangements with our suppliers of butadiene, styrene, and isoprene will generally provide an adequate supply of raw materials at competitive, market-based prices to support our current sales levels and that alternative sources of raw material supply are generally available to us, including on a spot market basis. However, we can provide no assurance that suppliers will perform under their contracts, that we will be able to adequately replace expiring or terminated contracts, that we would be able to obtain substitute arrangements on feasible terms or that we will generally be able to source raw materials on economic terms in the future.

Butadiene. Butadiene is available on the global petrochemical market with approximately eight producers in the Americas, 32 in Europe, 61 in Asia and six in the Middle East. We currently source our butadiene in the United States pursuant to contractual arrangements generally having terms ranging from one to two years, subject to renewal conditions, and butadiene in Europe pursuant to contracts and arrangements with LyondellBasell. The contract covering Germany will expire on December 31, 2040, and is subject to renewal conditions at the conclusion of the current term unless terminated with prior written notice by either party. We acquire butadiene in France from LyondellBasell under a contract that became effective on January 1, 2012 and expires on December 31, 2016, subject to renewal conditions. In Brazil, butadiene has been obtained from a local third-party source under contractual arrangements with terms typically of one to two years. In Japan, a majority of our butadiene needs are sourced from JSR on a commercial supply basis.

Styrene. Styrene is available on the global petrochemical market with approximately 11 producers located in the Americas, 20 in Europe, 52 in Asia and five in the Middle East. We currently source styrene in the United States, Europe and Brazil pursuant to contractual arrangements generally having terms ranging from one to two years, subject to renewal conditions.

Isoprene. Isoprene is primarily produced and consumed captively by manufacturers for the production of IR, which is primarily used in the manufacture of rubber tires. As a result, there is limited non-captive isoprene available in the market place. We currently source our global isoprene requirements through a variety of contractual arrangements generally having terms ranging from one to two years, subject to renewal conditions. We also purchase additional supplies of isoprene from various suppliers at prevailing market prices. In Japan, the majority of our isoprene needs are sourced from JSR on a commercial supply basis and from alternative suppliers as needed. We believe our contractual arrangements with several suppliers as well as spot arrangements and longstanding relationships with other third-party suppliers of isoprene will generally provide adequate future supplies of isoprene at competitive prices to support our current sales levels.

Competition

We compete with other SBC producers and non-SBC product producers primarily on the basis of price, breadth of product availability, product quality and 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 custom products and on the availability of technical support. See "Products and Commercial Applications" under "Part I, Item 1. Business" for further discussion of competition in our various product groups.

SBC Industry. Our most significant competitors in the SBC industry are: Asahi Chemical, Chi Mei, Dynasol Elastomers, Kuraray Company, Korea Kumho P.C., LCY, LG Chemical, Sinopec, Taiwan Synthetic Rubber

Corporation, Versalis, Voronezh and Zeon Corporation. Generally, however, we believe individual competitors do not compete across all of our product applications.

Product Substitution. We also compete against a broad range of alternative, non-SBC products within each of our product groups. See “Products and Commercial Applications” under “Part I, Item 1. Business” for further discussion of product substitution.

Operating and Other Agreements

Operating Agreements. LyondellBasell operates our manufacturing facility located in Berre, France. This facility is situated on a major LyondellBasell petrochemical site at which other third party tenants also own facilities. LyondellBasell charges us fees based on specified costs incurred in connection with operating and maintaining this facility, including the direct and indirect costs of employees and subcontractors, reasonable insurance costs, certain taxes imposed on LyondellBasell (other than income taxes) and depreciation and capital charges on certain assets. Pursuant to the agreement, LyondellBasell employs and provides all staff, other than certain managers, assistant managers and technical personnel, whom we may appoint. In March 2012, we executed a new operating agreement with LyondellBasell effective as of January 1, 2012. The agreement has an unlimited term, and is terminable as of any date after December 31, 2014 upon 18 months' prior notice by either party. The new agreement also provides for site services, utilities, materials and facilities, which had previously been under a separate agreement.

Pursuant to an agreement dated March 31, 2000, as subsequently amended, LyondellBasell operates and provides certain services, materials and utilities required to operate our manufacturing facility in Wesseling, Germany. We pay LyondellBasell a monthly fee, as well as costs incurred by LyondellBasell in providing the various services, even if the facility fails to produce any output (whether or not due to events within LyondellBasell's control), and even if we reject some or all output. This agreement is terminable after an initial term of 40 years upon five years' prior written notice.

Under certain of these agreements, we are required to indemnify LyondellBasell, including in certain circumstances for loss and damages resulting from LyondellBassell's negligence in performing their obligations.

Information Systems

We utilize ERP software systems to support each of our facilities worldwide. Our ERP software systems utilize a single global system, which provides reliability of our systems. The ERP software systems are supported by internal resources. Technical upgrades to the ERP systems are performed every 12 to 18 months to ensure the recent functionality is available. New technology continues to be approved and implemented to improve efficiencies, network resiliency and critical information protection. An annual disaster recovery exercise is performed on critical systems, both internally and those utilizing third-party data centers.

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. In 2014, we were awarded 48 patents for new products or applications, and at December 31, 2014, we had 1,132 granted patents and 308 pending patent applications. Since patents are generally in effect for a period of 20 years from the filing date, this means that a significant portion of our portfolio will remain in effect for a long period (assuming most of these applications will be granted). The granted patents and the applications cover both the United States 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. 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. A significant number of patents in our patent portfolio were acquired from Shell Chemicals. Shell Chemicals retained for itself fully-transferable and exclusive licenses for their use outside of the elastomers field, as well as fully-transferable, non-exclusive licenses within the field of elastomers for certain limited uses in non-competing activities. Shell Chemicals is permitted to sublicense these rights. Shell Chemicals also retains the right to enforce these patents outside the elastomers field and recover any damages resulting from these actions. Shell Chemicals may engage in or be the owner of a business that manufactures and/or sells elastomers in the elastomers field, so long as they do not use patent rights or technical knowledge exclusively licensed to us.

As a general matter, our trade names are protected by trademark laws. Our products are marketed under the registered trademarks "Kraton", "Elexar", "Giving Innovators Their Edge", "NEXAR" and "Cariflex."

In our almost 50 years in the SBC business, we have accumulated a substantial amount of technical and business expertise. Our expertise includes: product development, design and formulation, information relating to the applications in which our products are used, process and manufacturing technology, including the process and design information used in the operation, maintenance and debottlenecking of our manufacturing facilities, and the technical service that we provide to our customers. We hold extensive discussions with customers and potential customers to

define their market needs and product application opportunities. Where we believe necessary, we have implemented trade secret protection for our technical knowledge through non-analysis, secrecy and related agreements.

Employees

We had 934 full-time employees at December 31, 2014. In addition, 172 LyondellBasell manufacturing employees operate our manufacturing facilities and provide maintenance services in Europe under various operating and services arrangements. See "—Operating and Other Agreements." None of our employees in the United States are subject to collective bargaining agreements. In Europe, Brazil and Japan, a significant number of our employees are in arrangements similar to collective bargaining arrangements. We believe our relationships with our employees continue to be good.

Environmental Regulation

Our operations in the United States 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, solid and hazardous waste management, 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 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.

For example, the U.S. Environmental Protection Agency ("EPA") issued new "maximum achievable control technology" ("MACT") standards under the federal Clean Air Act for controlling hazardous air emissions from industrial boilers. The MACT rule applies to the coal-burning boilers at our Belpre, Ohio, facility. On January 31, 2013, the EPA published standards for industrial boilers, and certain incinerators, and non-hazardous secondary materials in the Federal Register with an effective date of April 1, 2013 and a compliance date of January 31, 2016, three years from the date of publication in the Federal Register. In response to a number of petitions for reconsideration, in August 2013, the EPA issued letters granting reconsideration on three issues raised in the petition. The three issues included in the EPA's grant of reconsideration relate to (i) the definition of startup and shutdown periods and applicable work practices during such periods, (ii) revisions made to carbon monoxide limits and (iii) the use of particulate matter continuous parameter monitoring systems. On January 21, 2015, the EPA published a notice in the Federal Register announcing reconsideration of these three issues, proposing certain revisions to the definitions of startup and shutdown and to the applicable work practice standard during the startup and shutdown period, as well as a number of technical clarifying changes and corrections to the rule, and requesting public comment on the three issues and proposed revisions.

Although the EPA recently announced that it is reconsidering certain aspects of the rule, we expect to be in compliance with the MACT standards prior to the expiration of the compliance period. Capital expenditures necessary to comply with the MACT rule are currently estimated to be $54.3 million, of which approximately $7.0 million has been financed in the form of a capital lease. Through 2014, we have incurred an aggregate $45.3 million, and we currently expect 2015 capital expenditures for this project to be approximately $9.0 million, none of which will be financed with a capital lease. While this is a compliance driven project, we also expect this project to lower operating costs by approximately $10.0 million per year by 2016.

Environmental laws and regulations in various jurisdictions also establish programs and, in some instances, obligations to clean up contamination from current or historic operations. Under some circumstances, the current owner or operator of a site can be held responsible for remediation of past contamination regardless of fault and regardless of whether the activity was legal at the time that it occurred. Evaluating and estimating the potential liability related to site remediation projects is a difficult undertaking, and several of our facilities have been affected by contamination from historic operations.

Our Belpre, Ohio, facility is the subject of a site investigation and remediation program administered by the EPA pursuant to the Resource Conservation and Recovery Act ("RCRA"). In March 1997, Shell Chemicals entered into a consent order to investigate and remediate areas of contamination on and adjacent to the site. In March 2003, we joined Shell Chemicals in signing a new consent order that required additional remediation and assessment of various areas of contamination and continues to require groundwater-monitoring and reporting. Shell Chemicals continues to take the lead in this program, has posted financial assurance of $5.2 million for the work required under the consent order and has also indemnified us for the work required under this program, subject to the condition that we provide

notice of any claims on or prior to February 28, 2021. In turn, we have agreed with Shell Chemicals that we will, for a fee, provide certain services related to the remediation program. We have agreed with Shell Chemicals that we will pay up to $100,000 per year for the groundwater monitoring associated with the 2003 consent order.

Our Brazilian facility has also been affected by prior Shell Chemicals operations. A Shell Chemicals pesticide manufacturing operation was previously located on a tract of land adjacent to our Brazilian facility. In addition, areas of our facility were used by Shell Chemicals as part of its crop protection business. Shell Chemicals has retained responsibility for remediating a former manufacturing facility located on our site and has also indemnified us for identified waste management areas used in prior operations. The indemnity for remediation relating directly to the facility for the previous pesticide

manufacturing operations and for disposal activity related to that facility and for third-party claims regarding hazardous substance disposal expires in 2021. Shell Chemicals has installed a hydraulic barrier to prevent migration of ground water contamination and has completed other cleanup actions on the site.

Shell Chemicals agreed to indemnify us for specific categories of environmental claims brought with respect to matters occurring before our separation from Shell Chemicals in February 2001. Coverage under the indemnity 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. The indemnity for specific site clean-up matters and for third-party claims regarding hazardous substance disposal expires in 2021. Claims that may arise in the future related to past operations may not be covered by the Shell Chemicals' indemnities, and amounts that are recoverable under those indemnities may not be sufficient to satisfy claims against us.

In addition, we may in the future be subject to claims that arise solely from events or circumstances occurring after February 2001 that would not, in any event, be covered by the Shell Chemicals' indemnity. While we recognize that we may, in the future, be held liable with respect to 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.

In January 2014, our Belpre, Ohio, facility experienced a mechanical equipment failure due to inclement weather that resulted in a release of process solvents into nearby waterways. Applicable authorities were notified, and cleanup activities are substantially complete. Kraton may be required to pay governmental fines or sanctions in excess of $100,000 in connection with this event.

Insurance

We have levels of insurance that we believe to be customary for a company of our size in our industry. Our insurance policies are subject to customary deductibles and limits.

Seasonality

Seasonal changes and weather conditions typically affect sales volumes with respect to paving and roofing customers and generally result in higher sales volumes into this market 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 public may read and copy any materials that we file with the SEC at the SEC's Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC also maintains an internet site that contains reports and information statements, and other information regarding issuers that file electronically with the SEC at http://www.sec.gov. Additionally, information about us, including our reports filed with the SEC, is available through our web site at http://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.

LyondellBasell Industries provides significant operating and other services under agreements that are important to our business. The failure of LyondellBasell to perform its obligations, or the termination of these agreements, could adversely affect our operations.

We have operating and service agreements with LyondellBasell Industries, or LyondellBasell, that are important to our business. We are a party to:

- operating agreements under which LyondellBasell (in Berre, France, and Wesseling, Germany) operates and maintains our European manufacturing facilities and employs and provides substantially all of the staff for those facilities; these operating agreements also provide for site services, utilities, materials and facilities, which had previously been under separate agreements; and
- lease agreements under which we lease our European manufacturing sites (a 96 kiloton capacity facility in Wesseling, Germany and a 85 kiloton capacity facility in Berre, France) from LyondellBasell.

Under the terms of the above agreements, either party is permitted to terminate the applicable agreement in a variety of situations. The operating agreement relating to the Berre facility is terminable by either party upon 18 months' written notice. As of the date of this filing, no such notice has been given by either party. Should LyondellBasell fail to provide these services or should any operating agreement be terminated, we would be forced to obtain these services from third parties or provide them ourselves. Similarly, if in connection with or independent from the termination of an operating agreement, LyondellBasell terminates a facility lease, we would be forced to relocate our manufacturing facility. The failure of LyondellBasell to perform its 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 may 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.

Conditions in the global economy and capital markets may adversely affect the company's results of operations, financial condition and cash flows.

Our products are sold in markets that are sensitive to changes in general economic conditions, such as automotive, construction and consumer products. Downturns in general economic conditions can cause fluctuations in demand for our products, product prices, 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 materials 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 three primary raw materials: butadiene, styrene and isoprene. We have entered into long-term supply agreements with Shell Chemicals, LyondellBasell and others to supply our raw material needs in the United States and Europe. As these contracts expire, we may be unable to renew these contracts or obtain new long-term supply agreements on terms favorable to us, if at all, which may significantly impact our operations.

In addition, 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 or if a supplier terminates its agreements with us, we may not be able to obtain these raw materials from alternative suppliers in sufficient quantities 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.

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If the availability of isoprene is limited, we may be unable to produce some of our products in quantities or on economic terms sought by our customers, which could have an adverse effect on our sales of products requiring isoprene.

Isoprene is not widely available, and the few isoprene producers tend to use their production for captive manufacturing purposes or to sell only limited quantities into the world chemicals market. As a result, there is limited non-captive isoprene available for purchase in the markets in which we operate.

Currently, we source our isoprene requirements for the United States and Europe from a portfolio of suppliers. In Japan, we obtain the majority of our isoprene requirements from our joint venture partner, and from alternative suppliers as needed. In Brazil, isoprene is primarily obtained from a local third party supplier. These suppliers may not be able to meet our isoprene requirements, and we may not be able to obtain isoprene in quantities required for our operations on terms favorable to us, or at all. A lack of availability of isoprene in the quantities we require to produce products containing isoprene could have a material adverse effect on our results of operations.

Because there is limited non-captive isoprene availability, the market for isoprene is thin and prices are particularly volatile. Prices for isoprene are impacted by the supply and prices of natural and synthetic rubber, prevailing energy prices and the existing supply and demand of isoprene in the market. In the past, tight supply in the isoprene market has been exacerbated by operational problems of some key producers and reduced availability of crude C5 inputs for the extraction units. More recently, the trend toward lighter ethylene cracker feedslates has reduced the supply of crude C5 in the United States. This decrease has been replaced by imports of crude C5 and/or isoprene. Significant increases in the cost of isoprene could have a material adverse impact on our business, financial condition or results of operations.

If the availability of butadiene is limited, we may be unable to produce some of our products in quantities or on economic terms sought by our customers, which could have an adverse effect on our sales of products requiring butadiene.

The North American market is structurally short of butadiene and has relied on imports of crude C4 and/or butadiene to balance demand. With the trend toward lighter ethylene cracker feedslates in the United States, there has been a reduction in the supply of crude C4. The North American market has been supplemented by imports of crude C4 and butadiene. Historically, the European market has been better balanced and provided exports to North America. Currently, our butadiene requirements in the United States are satisfied by several suppliers, and LyondellBasell is our major butadiene supplier in Europe. In general, the quantity of butadiene available in any one region is dependent on the cracking inputs of olefins plants, ethylene demand, inter-regional demand for butadiene and demand for other oil derivatives. Suppliers may not be able to meet our butadiene requirements, and we may not be able to obtain substitute supplies of butadiene from alternative suppliers in a timely manner or on favorable terms. A lack of availability of butadiene in the quantities we require to produce products containing butadiene could have a material adverse effect on our results of operations.

If the availability of styrene is limited, we may be unable to produce some of our products in quantities or on economic terms sought by our customers, which could have an adverse effect on facility utilization and our sales of products requiring styrene.

We satisfy our styrene requirements in the United States and Europe pursuant to purchase agreements with terms of one to two years, subject to renewal conditions. We have more than one supplier in each of these regions and also generally have alternatives for either modifying the contract, supply portfolio or obtaining spot supply. As contracts expire, we cannot give assurances that we will obtain new long-term supply agreements or that the terms of any such agreements will be on terms favorable to us, and consequently our future acquisition costs for styrene may therefore increase.

Increases in the costs of our raw materials could have an adverse effect on our financial condition and results of operations if those costs cannot be passed onto our customers.

Our results of operations are directly affected by the cost of raw materials. We use butadiene, styrene, and isoprene as our primary raw materials in manufacturing our products. On a first-in, first-out (FIFO) basis, these monomers together represented approximately $512.8 million, $609.5 million and $732.9 million or 51.6%, 57.2% and 61.5% of our total cost of goods sold for the years ended December 31, 2014, 2013 and 2012, respectively. Since the cost of our three primary raw materials comprise a significant amount of our total cost of goods sold, our selling prices for our

products and therefore our total revenue is impacted by movements in our raw material costs, as well as the cost of other inputs. In the past we have experienced erratic and significant changes in the costs of these monomers, the cost of which has generally correlated with changes in energy prices, supply and demand factors, and prices for natural and synthetic rubber. The pricing for butadiene has historically been particularly volatile. Political unrest in the Middle East and market dislocation resulting from U.S. sanctions relating thereto could lead to increases in the price of crude oil, and, as a result, in the price of our primary raw materials. 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 three monomers, 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.

In response to volatile raw material price increases, we have aggressively pursued price increases for our products to offset increased costs. Although we have been successful in recovering a substantial amount of the raw material cost increases while retaining customers, 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.

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 FIFO 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 FIFO than under ECRC, and in periods of rising raw material costs, gross profit will be higher under FIFO than under ECRC. However, because monomer costs are difficult to predict, we cannot accurately anticipate fluctuations in monomer costs with precision, or effectively or economically hedge against the effects of any such change. If monomer costs fluctuate in a quarter, our earnings will be affected, the magnitude of which could be significant, which could cause our earnings 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.

Our industry is highly competitive, and we may lose market share to other producers of styrenic block copolymers or to producers of other products that can be substituted for our products.

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, our financial condition and results of operations could be materially adversely affected.

In addition, competition between styrenic block copolymers and other products within various product applications in which we compete is intense. Increased competition from existing or newly developed SBC or non-SBC 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 styrenic block copolymers or if other products can be successfully substituted for our products, our sales may decline.

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.

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 United States. 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 harm 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.

In addition, we acquired a significant number of patents from Shell Chemicals. According to the agreements with Shell Chemicals relating to their contribution of these patents to us and our ownership of these patents, Shell Chemicals retained for itself fully-transferable and exclusive licenses to their use outside of the elastomers business, as well as fully-transferable non-exclusive licenses within the field of elastomers for certain limited uses in non-competing activities. Shell Chemicals is permitted to sublicense these rights. Shell Chemicals also retains the right to enforce these patents outside the elastomers field and recover any damages resulting from these actions.

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 United States 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 United States 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.

It is our policy to enter into confidentiality agreements with our employees and third parties to protect our unpatented proprietary manufacturing expertise, continuing technological innovation and other trade secrets, but 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 United States 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 United States 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 , our business and results of operations could be materially adversely affected.

A major failure of our information systems could harm our business.

We depend on integrated information systems to conduct our business. We may experience operating problems with our information systems as a result of system failures, viruses, computer “hackers” or other causes. If our systems for protecting against these risks prove not to be sufficient, we could be adversely affected by, among other things, loss or damage of intellectual property, proprietary information, or customer data, having our business operations interrupted, and increased costs to prevent, respond to, or mitigate attacks on our systems. Any significant disruption or slowdown of our systems could cause customers to cancel orders or cause standard business processes to become inefficient or ineffective, which could adversely affect our financial position, results of operations or cash flows.

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 for paving and roofing applications. In particular, sales volumes for paving products generally rise in the warmer months and generally decline during the colder months of fall and winter. Roofing product sales volumes tend to be more consistent throughout the year. In addition, abnormally cold or wet seasons may cause reduced purchases from our Paving and Roofing customers. However, because seasonal weather patterns are difficult to predict, we cannot accurately estimate fluctuations in our quarterly Paving and Roofing sales in any given year. If Paving and Roofing results cause our operating results to fall below the periodic expectations of financial analysts or investors, the market price of our common stock may decline.

Substantial indebtedness could adversely affect our financial condition and prevent us from fulfilling our obligations under the senior secured credit facilities and the senior notes.

As of December 31, 2014, we had $350.0 million principal amount of indebtedness outstanding in the form of senior unsecured notes. Additionally, we have entered into an asset-based revolving credit facility consisting of a $150.0 million U.S. senior secured revolving credit facility and a $100.0 million Dutch senior secured revolving credit facility. As of December 31, 2014, the facilities were undrawn, and available borrowing capacity was $191.6 million. We may request up to an aggregate of $100.0 million of additional revolving facility commitments of which up to an aggregate of $40.0 million may be additional Dutch revolving facility commitments, provided that we satisfy additional conditions described in the senior secured credit facilities, and provided further that the U.S. revolver commitment is at least 60% of the commitments after giving effect to such increase. Furthermore, our KFPC joint venture executed a syndicated loan agreement in the amount of 5.5 billion NTD, or $173.1 million (converted at the December 31, 2014 exchange rate), to provide additional funding to construct the HSBC facility in Taiwan and to provide funding for working capital requirements and/or general corporate purposes. Formosa Petrochemical Corporation and Kraton Polymers LLC are the guarantors of the KFPC Loan Agreement with each guarantor guaranteeing fifty percent (50%) of the indebtedness.

Although the terms of our senior secured credit facilities, the indenture governing the senior notes and the KFPC Loan Agreement contain restrictions on the incurrence of additional indebtedness, these restrictions are subject to a number of important exceptions, and additional indebtedness that we may incur from time to time to finance projects or for other reasons in compliance with these restrictions could be substantial. If we and our restricted subsidiaries incur significant additional indebtedness, the related risks that we face could increase.

Our indebtedness could:

- make it more difficult for us to satisfy our financial obligations;
- increase our vulnerability to adverse economic and industry 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 monomers 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.

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 the senior secured credit facilities 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.

Our debt instruments, including our senior secured credit facilities and the indenture governing our senior notes, impose significant operating and financial restrictions on us and affect our ability to access liquidity.

Our senior secured credit facilities and the indenture governing our senior notes contain, and any future indebtedness may contain, a number of restrictive covenants that impose significant operating and financial restrictions on us. Under the terms of our senior secured credit facilities, 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 facilities is below specified amounts. In addition, our senior secured credit facilities and indenture include restrictions on our ability to, in certain circumstances, among other things:

- place liens on our or our 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.

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 us 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 our Belpre facility, which is our largest manufacturing facility, or any of our other major operating facilities could have a material adverse effect on 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.

We may be liable for damages based on product liability claims brought against our customers.

Many of our products provide critical performance attributes to our customers' products that are sold to consumers who could potentially bring product liability suits in which we could be named as a defendant. 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 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.

As a global business, we are exposed to local business risks in different countries, which could have a material adverse effect on our financial condition or results of operations.

We have significant operations in foreign countries, including manufacturing facilities, research and development facilities, sales personnel and customer support operations. Currently, we operate, or others operate on our behalf, facilities in Brazil, Germany, France and Japan, in addition to our operations in the United States. Furthermore, we are a 50/50 joint venture partner with FPCC to build, 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;
- 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 United States Foreign Corrupt Practices 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;
- 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; 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. 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 and results of operations.

Compliance with extensive environmental, health and safety laws could require material expenditures, changes in our operations or site remediation.

Materials such as butadiene, styrene and isoprene, which are used in the manufacture of our products, can represent potentially significant health and safety concerns. 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.

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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, 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. In the last five years, the EPA 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 speculative, any such legislation, regulation, treaties or protocols, if enacted, may have an adverse effect on our operations or financial condition. Further, some scientific studies on the effect of the emission of greenhouse gases on climate suggest that adverse weather events may become stronger or more frequent in the future in certain of the areas in which we operate, although the scientific studies are not unanimous. Due to their location, some of our operations may be vulnerable to operational and structural damages resulting from hurricanes and other severe weather systems. Our insurance may not cover all associated losses. We are taking steps to mitigate physical risks from storms, but no assurance can be given that future storms will not have a material adverse effect on our business.

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 butadiene could require material expenditures or changes in our operations. Butadiene is a known carcinogen in laboratory animals at high doses and is being studied for its potential adverse health effects. The Occupational Safety and Health Administration limits the permissible employee exposure to butadiene. Future studies on the health effects of butadiene may result in additional regulations or new regulations in Europe that further restrict or prohibit the use of, and exposure to, butadiene. Additional regulation of butadiene 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.

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 that are filed after the date of our acquisition of Shell Chemicals' elastomers business. While Shell Chemicals has agreed to indemnify us for certain claims brought with respect to matters occurring before our separation from Shell Chemicals in February 2001, those indemnity obligations are subject to limitations, and we cannot be certain that those indemnities will be sufficient to satisfy claims against us. In addition, we face the risk that future claims would fall outside of the scope of the indemnity due either to the limitations on the indemnity or to their arising from events and circumstances occurring after February 2001. Finally, under certain of the lease and operating agreements under which LyondellBasell leases and provides services to our sites in Wesseling, Germany, and Berre, France, we are required to indemnify LyondellBasell in

certain circumstances, including in certain circumstances for loss and damages resulting from LyondellBasell's 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. These laws often identify the site owner as one of the parties that can be jointly and severally liable for on-site remediation, regardless of fault or whether the original activity was legal at the time it occurred. For example, our Belpre, Ohio, facility is the subject of a required remediation program to clean up past contamination at the site and at an adjacent creek and we are a party to that site clean-up order. While Shell Chemicals has posted financial assurance of

$5.2 million for this program and has taken the lead in implementing the program, we may incur costs and be required to take action under this program. Similarly, the Shell Chemicals indemnity for remediation at the Belpre facility may not cover all claims that might be brought against us.

Our Paulinia, Brazil, facility also has on-site contamination resulting from past operations of Shell Chemicals. Although an indemnity from Shell Chemicals covers claims related to specified areas within the facility, we may be required to undertake and pay for remediation of these and other areas. The indemnity coverage from Shell Chemicals is limited in time and amount and we cannot rely upon it to cover possible future claims for on-site contamination separate from the areas specified in the indemnity. The Paulinia facility is also adjacent to a former Shell Chemicals site where we believe past manufacturing of hydrocarbons resulted in significant contamination of soil and groundwater and required relocation of nearby residents. It is our understanding that the Shell Chemicals portion of the site has changed ownership several times, which may impact financial responsibility for contamination on the site. While we are not aware of any significant contamination at our Paulinia facility, we could potentially be the subject of claims related to pesticide contamination and effects at some point in the future.

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 litigation arising from the termination of the Combination Agreement with LCY Chemical Corp. On October 6, 2014, we and two of our subsidiaries, Kraton Performance Polymers Limited and NY MergerCo, LLC, were named as defendants in a lawsuit filed by LCY Chemical Corp. and its subsidiary, LCY Synthetic Rubber Corp. (together, the “LCY Parties”), in connection with the previously announced termination of the Combination Agreement. The lawsuit alleges breach of contract by Kraton and seeks payment of the $25 million termination fee, along with awards of unspecified comepensatory, expectancy and consequential damages. If this lawsuit is ultimately decided against us, we may be required to pay a significant amount of money to the LCY parties.

Regulatory and statutory changes applicable to us or our customers could adversely affect our financial condition and results of operations.

We and many of the applications for the products in the markets in which we sell our products are regulated by various national and local rules, laws and regulations. Changes in any of these areas could result in additional compliance costs, seizures, confiscations, recall or monetary fines, any of which could prevent or inhibit the development, distribution and sale of our products. For example, changes in environmental regulations restricting the use of disposable diapers could cause a decline in sales to producers of that product. In addition, we benefit from certain trade protections, including anti-dumping protection. If we were to lose these protections, our results of operations could be adversely affected.

We are subject to customs, international trade, export control, 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, 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. If these 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.

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 and Brazilian Real. 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.

We are subject to income taxes and state taxes in the U.S., as well as numerous foreign jurisdictions. Significant judgment is required in determining our worldwide provision for income taxes. In the ordinary course of our business, there are many transactions and calculations where the ultimate tax determination is uncertain. Although we believe our tax estimates are reasonable, the final determination of tax audits and any related litigation could be materially different to that which is reflected in our consolidated financial statements. Should any tax authority take issue with our estimates, our results of operations, financial position and cash flows could be adversely affected.

Our formation of a joint venture to expand HSBC capacity in Asia is subject to risks and uncertainties.

We are a 50/50 joint venture partner with FPCC to build, own and operate a 30 kiloton HSBC plant at FPCC's petrochemical site in Mailiao, Taiwan. Construction of the HSBC plant is ongoing; however, the plant may not be successfully constructed and operated within our expected timeframe or budget or yield expected results. In addition, the project remains subject to numerous known and unknown contingencies, including material governmental approvals and permitting; cost and availability of raw materials, labor and financing; weather and operational delays; and economic, political and other disruptions. If any of these risks materialize, our prospects in Asia and as a result, our ability to meet demand for HSBC products could be materially adversely affected.

In January 2014, a group of local residents in Mailiao, Taiwan, sued the Taiwanese Executive Yuan (the executive branch of the Taiwanese government) to overturn an appeal decision rendered by the Executive Yuan in which it had overturned a prior ruling of the Taiwan Environmental Protection Administration. The Taiwan EPA ruling in question required the inclusion of restrictive conditions relating to FPCC's entire petrochemical site in Mailiao, Taiwan, which is the site of our joint venture with FPCC, in the environmental permit for the construction of the HSBC plant by our joint venture company. Neither we nor our joint venture is a party to the proceedings, nor do we or our joint venture have any right under Taiwan law to join the proceedings. The court in the proceeding has issued a ruling that could reinstate the restrictive conditions in FPCC's environmental permit. The Executive Yuan and FPCC have appealed the ruling. The ruling conflicts with the prior appeal decision of the Executive Yuan, and if the ruling is not overturned, it could adversely impact the ability of the joint venture to obtain material operating permits in the future.

Our relationship with our employees could deteriorate, which could adversely affect our operations.

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. We had 934 full-time employees as of December 31, 2014. A significant number of our non-U.S. employees are subject to arrangements similar to collective bargaining arrangements. With respect to these employees, we may not be able to negotiate labor agreements on satisfactory terms, and actions by our employees may disrupt 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. 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 business and financial condition and results of operations. Because many of the personnel who operate our

European facilities are employees of LyondellBasell, relations between LyondellBasell and its employees may also adversely affect our business and financial condition and results of operations.

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. Loss of the services of any of our executive

officers 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 with our customers. As such, our customers could cease buying our products from us at any time, for any reason, with little or no recourse. If multiple customers elected not to purchase products from us, our business prospects, financial condition and results of operations could be adversely affected.

A decrease in the fair value of pension assets could materially increase future funding requirements of the pension plan.

We sponsor a defined benefit pension plan. The total projected benefit obligation of our defined benefit pension plan exceeded the fair value of the plan assets by approximately $54.1 million at December 31, 2014. We contributed $7.2 million to the pension plan in 2014. Among the key assumptions inherent in the actuarially calculated pension plan obligation and pension plan expense 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 plan obligation 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.

Domestic or international natural disasters 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 greater risk of future terrorist attacks than other possible targets in the U.S. and throughout the world. Moreover, extraordinary events such as natural disasters may negatively affect local economies, including those of our customers or suppliers. The occurrence of such events cannot be predicted, although they can be expected to continue to adversely impact the economy in general and our specific markets. The resulting damage from such an event could include loss of life, property damage or site closure. Any, or a combination, of these factors could adversely impact our results of operations, financial position and cash flows.

Delaware law and some provisions of our organizational documents 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 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 Performance Polymers, Inc. 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 one year following a change in control, and with respect to certain equity awards, within two years following a change in

control.

Any Supplemental Pension Benefits a participant may have accrued under the Kraton Polymers U.S. LLC Pension Benefit Restoration Plan also vests immediately on a change of control and 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, certain change of control transactions constitute an event of default under our credit facility and require us to repurchase our outstanding senior notes at a price equal to 101% of their principal amount, plus any accrued and unpaid interest.

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 senior secured credit facilities and our senior notes indenture limit our ability to pay cash dividends and may preclude us from paying 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 conditions, contractual restrictions, restrictions imposed by applicable law or the SEC and other factors 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 Performance Polymers, Inc. 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.

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.

Our properties consist primarily of manufacturing and research and development facilities for the production of specialty chemicals. The following table sets forth our principal facilities:

| Location | Acres | Approximate Square Footage | Use | Owned/Leased | |
|---|---|---|---|---|---|
| Belpre, Ohio | 350 | 3,600,000 | Manufacturing and R&D | Owned | (1) |
| Wesseling, Germany | 8.1 | 354,000 | Manufacturing | Owned | (2) |
| Berre, France | 9.0 | 392,000 | Manufacturing | Owned | (2) |
| Paulinia, Brazil | 179 | 2,220,000 | Manufacturing | Owned | |
| Kashima, Japan | 11.6 | 395,000 | Manufacturing | Owned | (3) |
| Mailiao, Taiwan | 41.4 | 1,800,000 | Manufacturing | Leased | (4) |
| Houston, Texas | N/A | 105,500 | R&D | Leased | (5) |
| Shanghai, China | N/A | 33,000 | R&D | Leased | (5) |
| Amsterdam, Netherlands | N/A | 32,015 | R&D | Leased | (5) |
| Tsukuba, Japan | 4.5 | 23,327 | R&D | Leased | (5) |

(1) A portion of the HSBC capacity at the Belpre facility is owned by Infineum USA, a joint venture between Shell Chemicals and ExxonMobil.

(2) We lease the land, but own the manufacturing facility and production equipment.

(3) The Kashima, Japan, facility is owned by our 50%-50% joint venture with JSR.

(4) The Mailiao, Taiwan facility is under construction by our 50%-50% KFPC joint venture with FPCC. The joint venture leases the land, but owns the manufacturing facility and production equipment.

(5) We lease the facility, but own the equipment.

Belpre, Ohio. Our Belpre site is our largest manufacturing facility, with connections to barge, rail and truck shipping and receiving facilities. The Belpre facility has approximately 192 kilotons of production capacity to which we are entitled. The Belpre facility currently produces Performance Products, Specialty Polymers, and Cariflex™ products. A portion of the HSBC capacity at Belpre is owned by Infineum USA. Infineum is a joint venture between Shell Chemicals and ExxonMobil that makes products for the lubricant additives business. Under a facility sharing agreement that terminates in 2030, we operate Infineum's share of the HSBC assets to manufacture a line of products for Infineum, and Infineum is entitled to a portion of the HSBC capacity at Belpre. Other than those assets owned by Infineum, we own the Belpre facility and the land on which it is located.

Wesseling, Germany. Our Wesseling manufacturing facility is located on the premises of LyondellBasell. The facility has direct access to major highways and extensive railway connections. Production capacity is approximately 96 kilotons. LyondellBasell owns the land on the premises and leases it to us. The lease is for a term of 30 years, beginning from March 31, 2000 and is extended automatically for a successive period of 10 years unless terminated upon one-year's written notice by either party. We own the SBC manufacturing facility and production equipment in the facility. The Wesseling facility currently produces Performance Products. LyondellBasell provides us operating and site services, utilities, materials and facilities under a long-term production agreement. LyondellBasell has the right to approve any expansion of our facility at Wesseling although its consent may only be withheld if an expansion would be detrimental to the site.

Berre, France. Our Berre manufacturing facility is located in southeastern France. The facility has direct access to sea, rail and road transport and has a production capacity of approximately 85 kilotons. The Berre site is leased to us by LyondellBasell, which operates the facility and with which our lease exists under a long-term lease due to expire in 2030. We own the SBC manufacturing facility and production equipment at Berre. We currently produce Performance

Products and Specialty Polymers there. We have an operating agreement with LyondellBasell for various site services, utilities and facilities under a long-term agreement; however, the operating agreement is terminable by either party upon 18 months' written notice. As of the date of this filing, no such notice has been given by either party.

Paulinia, Brazil. Our Paulinia manufacturing facility is located with access to major highways. The facility currently has a production capacity of approximately 28 kilotons of Performance Products in addition to capacity dedicated to producing Cariflex™ products. We own the facility and the land at Paulinia. BASF owns the adjacent site and shares title to the facilities that are common to the two companies such as the administration building, cafeteria and maintenance facilities.

Kashima, Japan. Our Kashima manufacturing facility is owned and operated by a joint venture named Kraton JSR Elastomers K.K., ("KJE"), between us and JSR. The Kashima facility is located northeast of Tokyo on the main island of Honshu at a JSR site that includes several synthetic rubber facilities and butadiene and isoprene extraction units. This facility is serviced by rail, barge and truck connections. Production capacity is approximately 31 kilotons of Performance Products, and 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 based on the economic interest of the joint venture. We and JSR each have a right of first refusal on the transfer of the joint venture interests of the other.

Mailiao, Taiwan. We are a 50/50 joint venture partner with FPCC to build, own and operate a 30 kiloton plant at FPCC's petrochemical site in Mailiao, Taiwan to produce Specialty Polymers. Construction of the plant is ongoing with completion expected in the first quarter of 2016.

Research, Development and Technical Service Facilities. Our research and development activities are primarily conducted in laboratories in Houston, Texas, and Amsterdam, Netherlands. We support our customers via a technical service network of laboratories around the globe. Our technical service laboratories are located in Shanghai, China, Tsukuba, Japan, and Paulina, Brazil. In addition we have a technical service office in Mont St. Guibert, Belgium. We perform application development and technical service support in all locations. In addition, our research and development centers in Houston and Amsterdam carry out polymer and process development to support our manufacturing sites as well as our customers. In 2014, we successfully launched a semi-works facility located at our production facility in Belpre, Ohio. We believe this will accelerate polymer development efforts and commercialization of products including the reduction of customer qualification lead times. We also anticipate utilizing the semi-works facility to produce small commercial quantities for customers which, prior to the launch of our semi-works facility, were satisfied by the Belpre, Ohio, production assets. Utilizing the semi-works facility for such smaller quantities is more economical than producing small quantities on the larger-scale Belpre production lines.

Item 3. Legal Proceedings.

We received notice from the tax authorities in Brazil assessing R$6.1 million, or $2.3 million (converted at the December 31, 2014 exchange rate), in connection with tax credits that were generated from the purchase of certain goods which were subsequently applied by us against taxes owed. 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.

On October 6, 2014, we and two of our subsidiaries, Kraton Performance Polymers Limited and NY MergerCo, LLC, were named as defendants in a lawsuit filed by LCY Chemical Corp. and its subsidiary, LCY Synthetic Rubber Corp. (together, the "LCY Parties"), in connection with the previously announced termination of the Combination Agreement. The lawsuit alleges breach of contract by Kraton and seeks payment of the $25.0 million termination fee, along with awards of unspecified comepensatory, expectancy and consequential damages. The lawsuit was filed in the United States District Court for the District of Delaware. While the ultimate resolution of this lawsuit cannot be predicted with certainty, we do not expect any material adverse effect upon our financial position, results of operations or cash flows from the ultimate outcome of this lawsuit.

In January 2014, our Belpre, Ohio facility experienced a mechanical equipment failure due to inclement weather that resulted in a release of process solvents into nearby waterways. Applicable authorities were notified, and cleanup

activities are underway. Kraton may be required to pay governmental fines or sanctions in excess of $100,000 in connection with this event.

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. While the outcome of these proceedings cannot be predicted with certainty, our management does not expect any of these other existing matters, individually or in the aggregate, to have a material adverse

effect upon our financial position, results of operations or cash flows. Furthermore, Shell Chemicals has agreed, subject to certain limitations, to indemnify us for certain claims brought with respect to matters occurring before February 28, 2001. As of the date of this Form 10-K, we have not been named as parties in any of these claims. Our right to indemnification from Shell Chemicals is subject to certain time limitations. 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.

For information regarding legal proceedings, including environmental matters, see “Part I, Item 1. Business—Environmental Regulation” and Note 11 Commitments and Contingencies (subsections (b) and (d) 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 New York Stock Exchange (NYSE) under the symbol "KRA". The following table sets forth the high and low intraday sales prices of our common stock per share, as reported by the NYSE.

| | Stock Price Range | |
|---|---|---|
| | High | Low |
| 2014 | | |
| Fourth Quarter | $21.35 | $15.52 |
| Third Quarter | $22.62 | $17.53 |
| Second Quarter | $28.35 | $21.23 |
| First Quarter | $28.87 | $20.91 |
| 2013 | | |
| Fourth Quarter | $23.98 | $18.38 |
| Third Quarter | $22.16 | $18.33 |
| Second Quarter | $23.73 | $18.82 |
| First Quarter | $28.26 | $23.25 |

We have not previously declared or paid any dividends or distributions on our common stock. As of February 23, 2015, we had approximately 102 shareholders of record of our common stock and approximately 4,900 beneficial owners.

Stock Performance Graph

The following graph reflects the comparative changes in the value from December 31, 2009 through December 31, 2014, 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 or to the liabilities of Section 18 of the Securities Exchange Act of 1934, and will not be deemed to be incorporated by reference into any filing under the Securities Act of 1933 or the Securities Exchange Act of 1934, 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)

| | Annual Return Percentage, Years Ending | | | | |
|---|---|---|---|---|---|
| Company Name / Index | 12/31/2010 | 12/31/2011 | 12/31/2012 | 12/31/2013 | 12/31/2014 |
| Kraton Performance Polymers, Inc. | 128.24 % | (34.41 )% | 18.37 % | (4.08 )% | (9.80 )% |
| S&P SmallCap 600 Index | 26.31 % | 1.02 % | 16.33 % | 41.31 % | 5.76 % |
| Dow Jones U.S. Specialty Chemicals | 37.19 % | (2.82 )% | 32.23 % | 22.88 % | 8.62 % |

| | Cumulative Value of $100 Investment, through December 31, 2014 | | | | | |
|---|---|---|---|---|---|---|
| Company Name / Index | Base Period 12/31/09 | 12/31/2010 | 12/31/2011 | 12/31/2012 | 12/31/2013 | 12/31/2014 |
| Kraton Performance Polymers, Inc. | $100.00 | $228.24 | $149.71 | $177.21 | $169.99 | $153.32 |
| S&P SmallCap 600 Index | $100.00 | $126.31 | $127.59 | $148.42 | $209.74 | $221.81 |
| Dow Jones U.S. Specialty Chemicals | $100.00 | $137.19 | $133.32 | $176.28 | $216.62 | $235.29 |

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 our senior notes and senior secured credit facilities 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. For more information about these restrictions, see Note 6 Long-Term Debt to the consolidated financial statements.

Repurchase of Equity Securities

On October 27, 2014, our board of directors approved a share repurchase plan of up to $50.0 million of our common stock. As of December 31, 2014, 998,080 shares had been repurchased at an average price of $18.69 per share and a total cost of $18.6 million (excluding trading commissions). The repurchase plan has no expiration date and all shares purchased have been canceled.

| Period | Total Number of Shares Purchased | Average Price Paid Per Share | Total Number of Shares Purchased as Part of a Publicly Announced Program | Maximum Dollar Value (in millions) of Shares that May Yet Be Purchased Under the Program |
|---|---|---|---|---|
| November 1 - 30, 2014 | 652,377 | $18.60 | 652,377 | $37.9 |
| December 1 - 31, 2014 | 345,703 | $18.84 | 345,703 | $31.4 |
| Total | 998,080 | $18.69 | 998,080 | $31.4 |

No shares were repurchased in the month of October 2014.

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, | | | | |
|---|---|---|---|---|---|
| | 2014 | 2013 | 2012 | 2011 | 2010 |
| | (in thousands, except per share data) | | | | |
| Consolidated statements of operations data: | | | | | |
| Revenue | $1,230,433 | $1,292,121 | $1,423,122 | $1,437,479 | $1,228,425 |
| Cost of goods sold | 993,366 | 1,066,289 | 1,191,680 | 1,121,293 | 927,932 |
| Gross profit | 237,067 | 225,832 | 231,442 | 316,186 | 300,493 |
| Operating expenses: | | | | | |
| Research and development | 31,370 | 32,014 | 31,011 | 27,996 | 23,628 |
| Selling, general and administrative | 104,209 | 105,558 | 98,555 | 101,606 | 92,305 |
| Depreciation and amortization | 66,242 | 63,182 | 64,554 | 62,735 | 49,220 |
| Impairment of long-lived assets | 4,731 | — | 5,434 | — | — |
| Total operating expenses | 206,552 | 200,754 | 199,554 | 192,337 | 165,153 |
| Loss on extinguishment of debt | — | — | — | 2,985 | — |
| Earnings of unconsolidated joint venture (1) | 407 | 530 | 530 | 529 | 487 |
| Interest expense, net | 24,594 | 30,470 | 29,303 | 29,884 | 23,969 |
| Income (loss) before income taxes | 6,328 | (4,862) | 3,115 | 91,509 | 111,858 |
| Income tax expense (benefit) | 5,118 | (3,887) | 19,306 | 584 | 15,133 |
| Consolidated net income (loss) | 1,210 | $(975) | $(16,191) | $90,925 | $96,725 |
| Net loss attributable to noncontrolling interest | (1,209) | (357) | — | — | — |
| Net income (loss) attributable to Kraton | $2,419 | $(618) | $(16,191) | $90,925 | $96,725 |
| | | | | | |
| Earnings (loss) per common share: | | | | | |
| Basic | $0.07 | $(0.02) | $(0.50) | $2.85 | $3.13 |
| Diluted | $0.07 | $(0.02) | $(0.50) | $2.81 | $3.07 |
| Weighted average common shares outstanding: | | | | | |
| Basic | 32,163 | 32,096 | 31,939 | 31,786 | 30,825 |
| Diluted | 32,483 | 32,096 | 31,939 | 32,209 | 31,379 |

(1) Represents our 50% joint venture interest in Kraton JSR Elastomers K.K., which is accounted for using the equity method of accounting.

| | As of December 31, | | | | |
|---|---|---|---|---|---|
| | 2014 | 2013 | 2012 | 2011 | 2010 |
| | (in thousands) | | | | |
| Consolidated balance sheets data: | | | | | |
| Cash and cash equivalents | $53,818 | $175,872 | $223,166 | $88,579 | $92,750 |
| Total assets | $1,082,452 | $1,194,797 | $1,229,189 | $1,153,756 | $1,080,723 |
| Total debt | $351,872 | $350,989 | $448,017 | $392,500 | $382,675 |

| | 2014 | 2013 | 2012 | 2011 | 2010 |
|---|---|---|---|---|---|
| Other data: | | | | | |
| Ratio of earnings to fixed charges | 1.11:1.00 | 0.80:1.00 | 1.02:1.00 | 3.54:1.00 | 5.07:1.00 |

Our earnings were insufficient to cover our fixed charges by approximately $8.7 million for the year ended December 31, 2013.

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Adjusted Gross Profit, EBITDA, and Adjusted EBITDA

We consider Adjusted Gross Profit, EBITDA, and Adjusted EBITDA to be important supplemental measures of our performance and believe they are frequently used by investors, securities analysts and other interested parties in the evaluation of our performance and/or that of other companies in our industry, including period-to-period comparisons. In addition, management uses these measures to evaluate operating performance, and our incentive compensation plan bases incentive compensation payments on our Adjusted EBITDA performance, along with other factors. Adjusted Gross Profit, EBITDA, and Adjusted EBITDA 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 ("GAAP").

| | Years ended December 31, | | |
|---|---|---|---|
| | 2014 | 2013 | 2012 |
| | (in thousands) | | |
| Adjusted Gross Profit (1) (2) | $257,308 | $260,293 | $264,289 |
| EBITDA (3) | $97,164 | $88,790 | $96,972 |
| Adjusted EBITDA (1) (4) | $147,194 | $140,906 | $143,842 |

(1) Although we report our financial results using the FIFO basis of accounting, as part of our pricing strategy, we measure our business performance using the estimated current replacement cost of our inventory and cost of goods sold. We maintain our perpetual inventory in our global enterprise resource planning system, where the carrying value of our inventory is determined using FIFO. At the beginning of each month, we determine the estimated current cost of our raw materials for that particular month, and using the same perpetual inventory system that we use to manage inventory and therefore costs of goods sold under FIFO, we revalue our ending inventory to reflect the total cost of such inventory as if it was valued using the estimated current replacement cost. The result of this revaluation from FIFO creates the spread between FIFO and ECRC. With inventory valued under FIFO and ECRC, we then have the ability to report cost of goods sold and therefore Adjusted Gross Profit and Adjusted EBITDA under both our FIFO convention and under estimated current replacement cost.

(2) Adjusted Gross Profit is gross profit 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 a measure of our performance, Adjusted Gross Profit is limited because it often varies substantially from gross profit calculated in accordance with US GAAP due to volatility in raw material prices.

(3) EBITDA represents net income before interest, taxes, depreciation and amortization. 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 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.

(4) 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 price, Adjusted EBITDA may, and often does, vary substantially from EBITDA, net income and other performance measures, including net income calculated in accordance with US GAAP; and
- Adjusted EBITDA may, and often will, vary significantly from EBITDA calculations under the terms of our debt agreements and should not be used for assessing compliance or non-compliance with financial covenants under our debt agreements.

Because of these and other limitations, EBITDA and Adjusted EBITDA should not be considered as a measure of discretionary cash available to us to invest in the growth of our business.

Our presentation of non-GAAP financial measures and the adjustments made therein should not be construed as an inference that our future results will be unaffected by unusual or non-recurring items, and in the future we may incur expenses or charges similar to the adjustments made in the presentation of our non-GAAP financial measures.

We compensate for the above limitations by relying primarily on our GAAP results and using Adjusted Gross Profit, EBITDA, and Adjusted EBITDA only as supplemental measures. See our financial statements included elsewhere in this Form 10-K.

We reconcile Gross Profit to Adjusted Gross Profit as follows:

| | Years ended December 31, | | |
|---|---|---|---|
| | 2014 | 2013 | 2012 |
| | (in thousands) | | |
| Gross profit | $237,067 | $225,832 | $231,442 |
| Add (deduct): | | | |
| Settlement gain (a) | — | — | (6,819) |
| Property tax dispute (b) | — | — | 5,646 |
| Restructuring and other charges (c) | 651 | 218 | 1,006 |
| Production downtime (d) | 9,905 | 3,506 | 2,481 |
| Impairment of spare parts inventory (e) | 430 | — | — |
| Spread between FIFO and ECRC | 9,255 | 30,737 | 30,533 |
| Adjusted gross profit | $257,308 | $260,293 | $264,289 |

(a) Receipt from LyondellBasell in settlement of disputed charges.

(b) Charge associated with resolution of a property tax dispute in France.

(c) Severance expenses and other restructuring related charges.

(d) In 2014, weather-related production downtime at our Belpre, Ohio, facility and an operating disruption from a small fire at our Berre, France, facility. In 2013, production downtime at our Belpre, Ohio facility, in preparation for the installation of natural gas boilers to replace the coal-burning boilers required by the MACT legislation. In 2012, storm related charges at our Belpre, Ohio, facility.

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

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

| | Years ended December 31, | | |
|---|---|---|---|
| | 2014 | 2013 | 2012 |
| | (in thousands) | | |
| Net income (loss) attributable to Kraton | $2,419 | $(618) | $(16,191) |
| Net loss attributable to noncontrolling interest | (1,209) | (357) | — |
| Consolidated net income (loss) | 1,210 | (975) | (16,191) |
| Add (deduct): | | | |
| Interest expense, net | 24,594 | 30,470 | 29,303 |
| Income tax expense (benefit) | 5,118 | (3,887) | 19,306 |
| Depreciation and amortization | 66,242 | 63,182 | 64,554 |
| EBITDA | $97,164 | $88,790 | $96,972 |
| Add (deduct): | | | |
| Settlement gain (a) | — | — | (6,819) |
| Property tax dispute (b) | — | — | 6,211 |
| Retirement plan charges (c) | 399 | — | 1,100 |
| Restructuring and other charges (d) | 2,953 | 815 | 1,359 |
| Transaction and acquisition related costs (e) | 9,585 | 9,164 | — |
| Impairment of long-lived assets (f) | 4,731 | — | 5,434 |
| Impairment of spare parts inventory (g) | 430 | — | — |
| Production downtime (h) | 10,291 | 3,506 | 2,481 |
| KFPC startup costs (i) | 1,911 | — | — |
| Non-cash compensation expense (j) | 10,475 | 7,894 | 6,571 |
| Spread between FIFO and ECRC | 9,255 | 30,737 | 30,533 |
| Adjusted EBITDA | $147,194 | $140,906 | $143,842 |

(a) Receipt from LyondellBasell in settlement of disputed charges, which is recorded in cost of goods sold.

(b) Charge associated with resolution of a property tax dispute in France, of which $5.6 million is recorded in cost of goods sold and $0.6 million is recorded in selling, general and administrative expenses.

(c) In 2014, charges associated with the termination of the defined benefit restoration pension plan, which are primarily recorded in selling, general and administrative expenses. In 2012, retirement plan settlement charge associated with a disbursement from a benefit plan upon the retirement of an employee, which is recorded in selling, general and administrative expenses.

(d) Restructuring and other charges which are primarily recorded in selling, general and administrative expenses in 2014 and 2013 and primarily in cost of goods sold in 2012.

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

(f) In 2014, $2.4 million was related to engineering and design assets for projects we determined were no longer economically viable; $1.4 million was related to information technology and office assets associated with fourth quarter restructuring activities; and $0.9 million was related to other long-lived assets. In 2012, $3.4 million was associated with the Asia HSBC facility and $2.0 million was associated with other long-lived assets.

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

(h) In 2014, weather-related production downtime at our Belpre, Ohio, facility and an operating disruption from a small fire at our Berre, France, facility, of which $9.9 million is recorded in cost of goods sold and $0.4 million is recorded in selling general and administrative expenses. In 2013, production downtime at our Belpre, Ohio, facility, in preparation for the installation of natural gas boilers to replace the coal-burning boilers required by the MACT legislation, which is recorded in cost of goods sold. In 2012, storm related charges at our Belpre, Ohio facility, which are recorded in cost of goods sold.

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

(j) We had historically recorded these costs in selling, general and administrative expenses; however, beginning in the second quarter of 2013, a portion of these costs were recorded in cost of goods sold and research and development expenses. In 2014, $9.0 million, $0.9 million and $0.6 million and in 2013, $7.1 million, $0.5 million and $0.3 million is recorded in selling, general and administrative, research and development expenses, and cost of goods sold, respectively.

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 the 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.

OVERVIEW

We are a leading global producer of styrenic block copolymers ("SBCs") and other engineered polymers. SBCs are highly-engineered synthetic elastomers, which we invented and commercialized almost 50 years ago, that enhance the performance of numerous products by imparting greater flexibility, resilience, strength, durability, and processability. 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 refer to these complex or specialized polymers or innovations as being more "differentiated." In 2014, 56.6% of our revenue was derived from innovation-driven and differentiated products, with 40.0% derived from differentiated grades and 16.6% derived from innovation grades.

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

We also produce Cariflex™ isoprene rubber and isoprene rubber latex. Our Cariflex products are highly-engineered, non-SBC synthetic substitutes for natural rubber and natural rubber latex. Our Cariflex products, which have not been found to contain the proteins present in natural rubber latex and are, therefore, not known to cause allergies, are used in applications such as surgical gloves and condoms. We believe the versatility of Cariflex products provide opportunities for new, high margin applications.

We have a portfolio of innovations at various stages of development and commercialization, including

- polyvinyl chloride alternatives for wire and cable, and medical applications;
- polymers and compounds for soft skin and coated fabric applications for transportation and consumer markets;
- highly-modified asphalt ("HiMA") for high-performance paving applications;
- NEXAR™ family of membrane polymers for heating, ventilation, air conditioning and breathable fabrics; and
- synthetic cement formulations and polymers used for viscosity modification in oilfield applications.

The majority of worldwide SBC production is dedicated to un-hydrogenated SBCs ("USBCs"), which are primarily used in paving, roofing, adhesives, sealants, coatings, and footwear applications. Hydrogenated SBCs ("HSBCs"), which are significantly more complex and capital-intensive to manufacture than USBCs, are used in applications such as soft touch and flexible materials, personal hygiene products, medical products, automotive components and certain adhesives and sealant applications. Isoprene rubber ("IR") and isoprene rubber latex ("IRL") are non-SBC products which are primarily used in applications such as medical products, personal care, adhesives, tackifiers, paints and coatings.

Our products are manufactured and our commercial activities are organized in the following product groups based upon polymer chemistry and process technologies:

| Product Group Revenue Percentage: | 2014 | | 2013 | | 2012 | |
|---|---|---|---|---|---|---|
| Performance Products | 55.2 | % | 59.0 | % | 59.8 | % |
| Specialty Polymers | 33.5 | % | 31.9 | % | 32.6 | % |
| Cariflex | 11.3 | % | 9.0 | % | 7.4 | % |
| Other | — | % | 0.1 | % | 0.2 | % |

2014 Financial Overview

- Sales volume was 305.6 kilotons in 2014 compared to 313.5 kilotons in 2013.
- Revenue was $1,230.4 million in 2014 compared to $1,292.1 million in 2013.
- Gross profit was $237.1 million in 2014 compared to $225.8 million in 2013. Adjusted gross profit (non-GAAP) was $257.3 million in 2014 compared to $260.3 million in 2013.
- Adjusted EBITDA (non-GAAP) was $147.2 million in 2014 compared to $140.9 million in 2013.
- Net income attributable to Kraton was $2.4 million or $0.07 per diluted share in 2014 compared to a net loss of $0.6 million or $0.02 per diluted share in 2013. Diluted earnings (loss) per share was impacted by items that are discussed further in Net income (loss) attributable to Kraton.

See “Part II, Item 6. Selected Financial Data” for reconciliation of adjusted gross profit, EBITDA, and Adjusted EBITDA.

RESULTS OF OPERATIONS

Factors Affecting Our Results of Operations

Raw Materials. We use butadiene, styrene, and isoprene as our primary raw materials in manufacturing our products, and our results of operations are directly affected by the cost of these raw materials. On a FIFO basis, these monomers together represented approximately $512.8 million, $609.5 million and $732.9 million or 51.6%, 57.2% and 61.5% of our total cost of goods sold for the years ended December 31, 2014, 2013 and 2012, respectively. Since the cost of our three primary raw materials comprise a significant amount of our total cost of goods sold, our selling prices for our products and therefore our total revenue is impacted by movements in our raw material costs, as well as the cost of other inputs.

The cost of these monomers has generally correlated with changes in energy prices and is generally influenced by supply and demand factors and prices for natural and synthetic rubber. In aggregate, average purchase prices were lower for butadiene, isoprene and styrene during 2014 compared to 2013. Average butadiene and isoprene purchase prices were lower during 2013 compared to 2012 while average styrene purchase prices were higher in 2013 compared to 2012.

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. For the years ended December 31, 2014, 2013, and 2012, reported results under FIFO were lower than results would have been on an ECRC basis by $9.3 million, $30.7 million, and $30.5 million, respectively.

International Operations and Currency Fluctuations. We operate a geographically diverse business, serving customers in over 60 countries from five manufacturing facilities on four continents. Our sales and production costs are mainly denominated in U.S. dollars, Euro, Japanese Yen and Brazilian Real. From time to time, we use hedging strategies to reduce our exposure to currency fluctuations.

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

| Revenue by Geography: | 2014 | | 2013 | | 2012 | |
|---|---|---|---|---|---|---|
| Americas | 38.9 | % | 39.3 | % | 40.0 | % |
| Europe, Middle East and Africa | 36.4 | % | 38.7 | % | 39.1 | % |
| Asia Pacific | 24.7 | % | 22.0 | % | 20.9 | % |

Our financial results are subject to gains and losses on currency translations, which occur when the financial statements of foreign operations are translated into U.S. dollars. The financial statements of operations outside the United States 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 and losses and cash flows. The effect of translating the balance sheet into U.S.

dollars is included as a component of accumulated other comprehensive income (loss). Any appreciation of the functional currencies against the U.S. dollar will increase the U.S. dollar equivalent of amounts of revenue, expenses, gains and losses and cash flows, and any depreciation of the functional currencies will decrease the U.S. dollar amounts reported. Our results of operations are also subject to currency transaction 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. The estimated impact from currency fluctuations amounted to a pre-tax income of $0.4 million, a pre-tax loss of $4.8 million and a pre-tax loss of $6.4 million for the years ended December 31, 2014, 2013 and 2012, respectively. The primary driver for our pre-tax income in 2014 was the change in foreign currency exchange rates between the Euro and U.S. dollar. The primary driver for our pre-tax losses in 2013 and 2012 was the change in foreign currency exchange rates between the Japanese Yen and U.S. dollar and the Euro and U.S. dollar, respectively.

Seasonality. Seasonal changes and weather conditions typically affect our Performance Products sales into paving and roofing applications generally resulting in higher sales volumes in the second and third quarters of the calendar year versus the first and fourth quarters of the calendar year. Our other markets tend to show relatively little seasonality.

Outlook

Based upon recent raw material price trends, we estimate that first quarter 2015 will reflect a negative spread between FIFO and ECRC of $30.0 million to $35.0 million.

Year Ended December 31, 2014 Compared to Year Ended December 31, 2013

Revenue

Revenue was $1,230.4 million for the year ended December 31, 2014 compared to $1,292.1 million for the year ended December 31, 2013, a decline of $61.7 million or 4.8% (a decline of $50.3 million or 3.9% excluding an $11.4 million negative effect from currency fluctuations) with $51.3 million of the decline attributable to lower average selling prices associated with lower average raw material costs. Sales volumes declined 7.9 kilotons or 2.5% from 313.5 kilotons for the year ended December 31, 2013 to 305.6 kilotons for the year ended December 31, 2014. The decrease in total sales volume did not have a material impact on the period-over-period change in revenue, as the revenue impact from lower sales volume in our Performance Products business was more than offset by the revenue contribution from increased sales volume in the higher revenue per ton Cariflex™ and Specialty Polymers businesses.

With respect to revenue for each of our product groups:

- Cariflex revenue was $138.6 million for the year ended December 31, 2014 compared to $116.0 million for the year ended December 31, 2013. The $22.6 million or 19.5% revenue increase (an increase of $25.4 million or 21.9% excluding a $2.8 million negative effect from currency fluctuations) was due to a 24.1% increase in sales volumes led by sales into surgical glove applications, and to a lesser extent, increased sales into condom and medical stopper markets. The revenue contribution from higher sales volume was partially offset by lower average selling prices due to lower isoprene costs.
- Specialty Polymers revenue was $412.4 million for the year ended December 31, 2014 compared to $412.0 million for the year ended December 31, 2013. The $0.4 million or 0.1% revenue increase (an increase of $1.5 million or 0.4% excluding a $1.1 million negative effect from currency fluctuations) was due to a 4.6% increase in sales volume, which was offset by lower average selling prices reflective of lower raw material costs. The increase in sales volume was primarily due to growth in lubricant additives, cable gels, and polymer modification applications partially offset by lower volume into personal care applications.
- Performance Products revenue was $678.9 million for the year ended December 31, 2014 compared to $762.9 million for the year ended December 31, 2013. The $84.0 million or 11.0% revenue decline (a decline of $76.5 million or 10.0% excluding a $7.5 million negative effect from currency fluctuations) was due to a 6.2% reduction in sales volumes and, to a lesser extent, lower average selling prices driven by lower butadiene and isoprene costs. The decline in sales volume was primarily due to lower paving and roofing volumes in Europe, lower paving volumes in Asia Pacific and lower volumes into packaging & industrial adhesives applications.

Cost of Goods Sold

Cost of goods sold was $993.4 million for the year ended December 31, 2014 compared to $1,066.3 million for the year ended December 31, 2013. The $72.9 million or 6.8% decrease was primarily driven by a $66.0 million reduction in raw material costs (including a period over period benefit of $21.5 million due to the spread between FIFO and ECRC), an $18.6 million decrease from lower sales volumes, and an $11.1 million decrease due to foreign currency fluctuations. Partially offsetting these decreases were $9.9 million of costs associated with the weather-related production downtime at our Belpre, Ohio, facility and an operating disruption from a small fire at our Berre, France, facility in the first quarter of 2014 and increases in other variable and manufacturing costs.

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Gross Profit

Gross profit was $237.1 million for the year ended December 31, 2014 compared to $225.8 million for the year ended December 31, 2013. Gross profit as a percentage of revenue was 19.3% and 17.5% for the years ended December 31, 2014 and 2013, respectively.

Operating Expenses

Research and development expenses were $31.4 million for the year ended December 31, 2014 compared to $32.0 million for the year ended December 31, 2013, a decrease of $0.6 million or 2.0% primarily due to lower professional fees and maintenance costs partially offset by higher employee related costs. Research and development expenses were 2.5% of revenue for both of the years ended December 31, 2014 and 2013.

Selling, general and administrative expenses were $104.2 million for the year ended December 31, 2014 compared to $105.6 million for the year ended December 31, 2013, a decrease of $1.3 million or 1.3%. The decrease was primarily due to a $1.3 million decrease in employee related costs, a $1.0 million decrease in professional fees and a $0.8 million decrease in information technology costs. These decreases were partially offset by a $1.7 million increase in restructuring related costs and a $0.4 million increase in transaction and acquisition related costs. Selling, general and administrative expenses were 8.5% and 8.2% of revenue for the years ended December 31, 2014 and 2013, respectively.

Depreciation and amortization was $66.2 million for the year ended December 31, 2014 compared to $63.2 million for the year ended December 31, 2013, an increase of $3.1 million or 4.8%, largely due to capital expenditures.

We incurred impairments of long-lived assets of $4.7 million for the year ended December 31, 2014 related to engineering and design, information technology, and other long-lived assets. We did not incur any impairment charges for the year ended December 31, 2013.

Interest expense, net

Interest expense, net was $24.6 million for the year ended December 31, 2014 compared to $30.5 million for the year ended December 31, 2013, a decrease of $5.9 million or 19.3%. The decrease was primarily due to charges aggregating $5.8 million incurred in connection with our March 2013 refinancing and to lower outstanding indebtedness in 2014.

Income tax expense (benefit)

Our income tax provision was a $5.1 million expense and a $3.9 million benefit for the years ended December 31, 2014 and 2013, respectively. Our effective tax rate was 80.9% and 79.9% for the years ended December 31, 2014 and 2013, respectively. Our effective tax rates differed from the U.S. corporate statutory tax rate of 35.0%, primarily due to the mix of pre-tax income or loss earned in certain jurisdictions and the change in our valuation allowance.

We record a valuation allowance when it is more likely than not that some portion or all of the deferred tax assets will not be realized. As of December 31, 2014 and December 31, 2013, a valuation allowance of $90.4 million and $90.0 million, respectively, has been provided for net operating loss carryforwards and other deferred tax assets. We increased our valuation allowance by $0.4 million in 2014, which includes a $9.8 million increase related to changes in other comprehensive income (loss), partially offset by a $9.4 million decrease to the income tax provision. The $9.4 million is comprised of $7.6 million related to current year operating income and $1.8 million related to the assessment of our ability to utilize net operating loss carryforwards in future periods. We decreased our valuation allowance by $0.4 million in 2013, which includes a $0.5 million decrease due to changes in other comprehensive income (loss), partially offset by a $0.1 million increase to the income tax provision. The $0.1 million is comprised of $10.2 million related to current year operating losses, offset by a $10.1 million benefit related to the tax effect of unrealized pension gains. We consider the reversal of deferred tax liabilities within the net operating loss carryforward period, projected future taxable income and tax planning strategies in making this assessment. Excluding the change in our valuation allowance, our effective tax rates would have been a 229.0% expense and an 81.4% benefit for the years ended December 31, 2014 and 2013, respectively.

Net income (loss) attributable to Kraton

Net income attributable to Kraton was $2.4 million or $0.07 per diluted share for the year ended December 31, 2014, an increase in net income of $3.0 million, compared to a net loss of $0.6 million or $0.02 per diluted share for the year ended December 31, 2013.

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Net income for the year ended December 31, 2014 was negatively impacted by the following items, net of tax:

- Restructuring and other charges of $2.7 million or $0.08 per diluted share
- Fees related to the terminated Combination Agreement with LCY of $9.4 million or $0.29 per diluted share
- Production downtime at our Belpre, Ohio, and Berre, France, facilities of $10.2 million, or $0.31 per diluted share
- A charge for impairment of long-lived assets of $4.6 million or $0.14 per diluted share
- Start-up charges related to the joint venture with FPCC of $0.8 million or $0.02 per diluted share
- Impairment of spare parts inventory associated with the coal-burning boilers of $0.4 million or $0.01 per diluted share
- Charges associated with the termination of the defined benefit restoration pension plan of $0.4 million or $0.01 per diluted share
- Negative spread between FIFO and ECRC of $9.2 million or $0.28 per diluted share

Net income for the year ended December 31, 2014 was positively impacted by the following item:

- A reduction in our income tax valuation allowance of $1.8 million or $0.05 per diluted share related to the assessment of our ability to utilize net operating losses in future periods

Net loss for the year ended December 31, 2013 was negatively impacted by the following items, net of tax:

- Restructuring and other charges of $0.7 million or $0.02 per diluted share
- Fees related to the terminated Combination Agreement with LCY of $9.2 million or $0.28 per diluted share
- Charges associated with the credit facility refinancing of $5.8 million or $0.18 per diluted share
- Production downtime related to MACT legislation of $3.5 million or $0.11 per diluted share
- Negative spread between FIFO and ECRC of $30.7 million or $0.94 per diluted share.

Net loss for the year ended December 31, 2013 was positively impacted by the following item:

- Income tax benefit related to a portion of the change in our valuation allowance for deferred tax assets of $10.1 million or $0.31 benefit per diluted share

Year Ended December 31, 2013 Compared to Year Ended December 31, 2012

Revenue

Revenue amounted to $1,292.1 million on sales volumes of 313.5 kilotons for the year ended December 31, 2013 compared to $1,423.1 million on sales volumes of 313.4 kilotons for the year ended December 31, 2012. The $131.0 million or 9.2% revenue decline (a decline of $121.7 million or 8.6% excluding a $9.3 million negative effect from currency fluctuations) was largely due to a reduction in global product sales prices associated with lower average raw material costs of $110.4 million and a $10.3 million negative effect associated with revenue mix.

With respect to revenue for each of our product groups:

- Cariflex™ revenue was $116.0 million for the year ended December 31, 2013 compared to $105.9 million for the year ended December 31, 2012. The $10.1 million or 9.5% revenue increase (an increase of $14.8 million or 14.0% excluding a $4.7 million negative effect from currency fluctuations) reflects a 13.5% increase in sales volumes, mainly in the surgical glove market and other medical applications.
- Specialty Polymers revenue was $412.0 million for the year ended December 31, 2013 compared to $464.3 million for the year ended December 31, 2012. The $52.3 million or 11.3% revenue decline (a decline of $51.3 million or 11.0% excluding a $1.0 million negative effect from currency fluctuations) was due to lower sales volumes and lower average selling prices, reflective of lower average raw materials costs. The decline in sales volume was primarily due to lower sales in personal care, cable gels, polymer modification and industrial applications.
- Performance Products revenue was $762.9 million for the year ended December 31, 2013 compared to $850.8 million for the year ended December 31, 2012. The $87.8 million or 10.3% revenue decline (a decline

of $84.2 million or 9.9% excluding a $3.6 million negative effect from currency fluctuations) was due to lower average selling prices indicative of lower average raw material costs, primarily butadiene, partially offset by increased sales volume. The increase in sales volume was primarily due to increased sales into paving and roofing, personal care, and packaging & industrial adhesives applications. With respect to paving and roofing volumes, although first half 2013 sales volumes were down 15.1% compared to the first half of 2012, primarily due to the effect of poor weather conditions in North America and Europe, second half 2013 sales volumes were up 14.7% due to improved demand compared to the second half of 2012. As a result, overall sales volume for paving and roofing applications increased 1.0% year on year. With respect to innovation sales, we experienced growth in personal care applications and improved demand for our HiMA paving applications.

Cost of Goods Sold

Cost of goods sold was $1,066.3 million for the year ended December 31, 2013 compared to $1,191.7 million for the year ended December 31, 2012. The $125.4 million or 10.5% decrease was driven largely by an $119.6 million reduction in raw material costs, a $5.4 million reduction due to changes in foreign currency exchange rates, a $4.6 million reduction due to sales mix, and the absence of net charges amounting to $2.3 million recorded in 2012, which related to a property tax dispute in France, storm-related charges, restructuring and other charges and the LBI settlement. Partially offsetting these decreases in cost of goods sold were increased costs from the production downtime related to the MACT legislation of $3.5 million, increased turnaround costs of $2.5 million, and other increases in cost of goods sold.

Gross Profit

Gross profit was $225.8 million for the year ended December 31, 2013 compared to $231.4 million for the year ended December 31, 2012, a decrease of $5.6 million or 2.4%. Gross profit as a percentage of revenue was 17.5% and 16.3% for the years ended December 31, 2013 and 2012, respectively.

Operating Expenses

Research and development expenses were $32.0 million for the year ended December 31, 2013 compared to $31.0 million for the year ended December 31, 2012, an increase of $1.0 million or 3.2% primarily due to an increase in employee related costs partially offset by decreased lease expense for our research and development facilities. Research and development expenses were 2.5% and 2.2% of revenue for the years ended December 31, 2013 and 2012, respectively.

Selling, general and administrative expenses were $105.6 million for the year ended December 31, 2013 compared to $98.6 million for the year ended December 31, 2012, an increase of $7.0 million or 7.1%. The increase was primarily due to $9.2 million of professional fees related to the terminated Combination Agreement with LCY, a $1.1 million increase in costs associated with the joint venture with FPCC and a $1.0 million increase in other professional fees, partially offset by a $1.0 million decrease in employee related costs, lower legal expenses of $1.1 million, and the absence of a 2012 retirement plan settlement charge of $1.1 million and a $0.6 million charge associated with the resolution of a property tax dispute in France during 2012. Selling, general and administrative expenses were 8.2% and 6.9% of revenue for the years ended December 31, 2013 and 2012, respectively.

Depreciation and amortization was $63.2 million for the year ended December 31, 2013 compared to $64.6 million for the year ended December 31, 2012, a decrease of $1.4 million or 2.1%.

We did not incur any impairment charges of long-lived assets for the year ended December 31, 2013 compared to a $5.4 million charge for the year ended December 31, 2012.

Interest expense, net

Interest expense, net was $30.5 million for the year ended December 31, 2013 compared to $29.3 million for the year ended December 31, 2012, an increase of $1.2 million or 4.0%. The reduction in interest expense associated with lower outstanding indebtedness was more than offset by charges aggregating $5.8 million incurred in connection with our 2013 refinancing.

Income tax expense (benefit)

Our income tax provision was a $3.9 million benefit and a $19.3 million expense for the years ended December 31, 2013 and 2012, respectively. Our effective tax rate was 79.9% and 619.8% for the years ended December 31, 2013 and 2012, respectively. Our effective tax rates differed from the U.S. corporate statutory tax rate of 35.0%, primarily due to the mix of pre-tax income or loss earned in certain jurisdictions and the change in our valuation allowance.

We record a valuation allowance when it is more likely than not that some portion or all of the deferred tax assets will not be realized. As of December 31, 2013 and December 31, 2012, a valuation allowance of $90.0 million and $90.4 million, respectively, has been provided for net operating loss carryforwards and other deferred tax assets. We decreased our valuation

allowance by $0.4 million in 2013, which includes a $0.5 million decrease due to changes in other comprehensive income (loss), partially offset by a $0.1 million increase to the income tax provision. The $0.1 million is comprised of $10.2 million related to current year operating losses, offset by $10.1 million of income tax benefit related to the tax effect of unrealized pension gains. We increased our valuation allowance by $36.2 million in 2012, of which $30.7 million was included in the income tax provision and $5.5 million represents changes in equity. The $30.7 million increase in the valuation allowance is comprised of $13.5 million related to the reversal of the benefit recorded for prior year's net operating losses and $17.2 million related to current year operating losses. We consider the reversal of deferred tax liabilities within the net operating loss carryforward period, projected future taxable income and tax planning strategies in making this assessment. Excluding the change in our valuation allowance, our effective tax rates would have been an 81.4% and 366.1% benefit for the years ended December 31, 2013 and 2012, respectively.

Net loss attributable to Kraton

Net loss attributable to Kraton was $0.6 million or $0.02 per diluted share for the year ended December 31, 2013, an increase in net income of $15.6 million, compared to a net loss of $16.2 million or $0.50 per diluted share for the year ended December 31, 2012.

Net loss for the year ended December 31, 2013 was negatively impacted by the following items, net of tax:

- Restructuring and other charges of $0.7 million or $0.02 per diluted share
- Fees related to the terminated Combination Agreement with LCY of $9.2 million or $0.28 per diluted share
- Charges associated with the credit facility refinancing of $5.8 million or $0.18 per diluted share
- Production downtime related to MACT legislation of $3.5 million or $0.11 per diluted share
- Negative spread between FIFO and ECRC of $30.7 million or $0.94 per diluted share

Net loss for the year ended December 31, 2013 was positively impacted by the following item:

- Income tax benefit related to a portion of the change in our valuation allowance for deferred tax assets of $10.1 million or $0.31 benefit per diluted share

Net loss for the year ended December 31, 2012 was negatively impacted by the following items, net of tax:

- Property tax dispute settlement charge of $6.2 million or $0.20 per diluted share
- Restructuring and other charges of $1.2 million or $0.03 per diluted share
- Retirement plan settlement charge of $1.1 million or $0.03 per diluted share
- Storm related charges of $2.5 million or $0.08 per diluted share
- Impairment of long-lived assets of $5.4 million or $0.17 per diluted share
- Income tax expense related to a portion of the change in our valuation allowance for deferred tax assets of $13.5 million or $0.42 per diluted share
- Negative spread between FIFO and ECRC of $30.5 million or $0.95 per diluted share

Net loss for the year ended December 31, 2012 was positively impacted by the following item, net of tax:

- Receipt from LyondellBasell in settlement of disputed charges of $6.9 million or $0.22 benefit per diluted share

Critical Accounting Policies

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 (1) it requires assumptions to be made that are uncertain at the time the estimate is made, and (2) changes to the estimate or different estimates that could have reasonably been used would have materially changed 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.

Allowance for Doubtful Accounts. The allowance for doubtful accounts is 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 any off-balance sheet credit exposure related to our customers.

Inventories. Our inventory is principally comprised of finished goods inventory. Inventories are stated at the lower of cost or market as 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 market value, provisions are made for the difference between the cost and the market value.

Property, Plant and Equipment. Property, plant and equipment are recorded at cost. Major renewals and improvements that 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. 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 |

Long-Lived Assets. In accordance with the Impairment or Disposal of Long-Lived Assets Subsections of 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.

Asset Retirement Obligations (“ARO”). Our ARO consists of estimated costs of dismantlement, removal, site reclamation and similar activities associated with our facilities. We recognize the fair value of a liability for an ARO in the period in which we have an existing legal obligation associated with the retirement of our facilities and the obligation can reasonably be estimated. The associated asset retirement cost is capitalized as part of the carrying cost of the asset. The recognition of an ARO requires that we 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. In periods subsequent to initial measurement of the ARO, we recognize changes in the liability resulting from the accretion of the liability to its

non-discounted amount and revisions to either the timing or the amount of the original estimate of undiscounted cash flows. 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 11 Commitments and Contingencies (subsection (c)) 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. 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.

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. The Kraton Performance Polymers, Inc. 2009 Equity Incentive Plan (the "Equity Plan") allows for the grant to key employees, independent contractors, and eligible non-employee directors of incentive stock options, non-qualified stock options (which together with the incentive stock options, are referred to herein as ("Options")), stock appreciation rights, restricted stock awards and restricted stock unit awards, in addition to other equity or equity-based awards (including performance-based awards) as our board determines from time to time. We estimate the fair value of stock options using the Black-Scholes valuation model. Since our equity interests were privately held prior to our initial public offering we have limited publicly traded stock history, and as a result our estimated volatility is based on a combination of our historical volatility and similar companies' stock that are publicly traded. Until such time that we have enough publicly traded stock history to estimate volatility based solely on our stock, we expect to estimate volatility of options granted based on a combination of our historical volatility and similar companies' stock that are publicly traded. The expected term of options represents the period of time that options granted are expected to be outstanding. For all periods presented, we used the simplified method to calculate the expected term of options. The risk free interest rate for the periods within the contractual life of the option is based on the U.S. Treasury yield curve in effect at the time of grant. For all periods presented, the dividend yield is assumed to be zero based on historical and expected dividend activity. Forfeitures are based substantially on the history of cancellations of similar awards granted in prior years. See Note 3 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 determining whether a valuation allowance is required, the company evaluates primarily (a) the impact of cumulative losses in past years, and (b) current and/or recent losses. A recent trend in earnings despite cumulative losses is a prerequisite to considering not recording a valuation allowance.

In assessing the realizability of deferred tax assets, we consider whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. 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 Plan Valuations. We sponsor a noncontributory defined benefit pension plan ("Pension Plan"), a non-qualified defined benefit pension plan, and an additional 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.

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 Plan, 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.

Movements in the capital markets impact the market value of the investment assets used to fund our Pension Plan. 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 estimated effect of alternate assumptions on the 2015 estimated annual expense for the Pension Plan and Retiree Medical Plan were performed at varying discount rates, expected return on assets, expected salary increase, and, in the case of our Retiree Medical Plan, health care cost increases.

The measurement date of the Pension Plan's assets and obligations was December 31, 2014. We applied a 4.12% discount rate, assumed an 8.5% long term expected rate of return on plan assets and assumed an expected salary rate increase of 3.0%. The percentage of equity securities in our Pension Plan as of December 31, 2014 was approximately 61.7%, up from approximately 57.6% as of December 31, 2013, and the percentage of debt securities as of December 31, 2014 was approximately 28.8%, down from approximately 33.8% as of December 31, 2013. The plan's strategic target asset allocation as of December 31, 2014 was 50% equity, 30% debt and 20% other, with the "other" component consisting of a global market fund and a real estate fund, among others. We have assumed that the funds in the "other" category together would behave similarly to debt and therefore included the 20% "other" as bonds in our assessment.

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 Plan). The distribution of results from these simulations is then used to determine a median expected asset return.

Based on the plan's current target asset allocation, the median estimate for future asset returns (before non-investment expenses) was 8.9%. The asset return assumption set for determining the 2014 FASB ASC 715 expense was 8.5%, after non-investment expenses paid by the Trust. For the past three years, non-investment related expenses have averaged 0.5%. Therefore, the 8.5% return after non-investment expenses assumption is equivalent to a gross assumption of 9.0% (8.5% + 0.5%). A 9.0% rate (before non-investment expenses) falls within an acceptable range of simulated asset returns, between the 40th and 60th percentile.

For the Pension Plan, a 100 basis point decrease in the assumed discount rate would result in a corresponding increase of $3.0 million in our estimated Pension Plan expense for 2015. A 100 basis point decrease from 8.5% in the rate of return on plan assets would result in a corresponding increase of $1.0 million and a 100 basis point increase in the expected salary rate would result in a corresponding increase of $1.2 million in expenses for 2015, in each case holding all other assumptions and factors constant.

For the Retiree Medical Plan, a 100 basis point decrease in the assumed discount rate would result in a corresponding increase of $0.4 million in our estimated expense and a 100 basis point increase in the assumed health care trend rate would result in a corresponding increase of $0.1 million in our estimated expense for 2015, in each case holding all other assumptions and factors constant. For additional information about our benefit plans, See Note 12 Employee Benefits to the consolidated financial statements.

Revenue Recognition. Sales are recognized in accordance with the provisions of ASC 605, Revenue Recognition—Overall, when the revenue is realized or realizable, and has been earned. Revenue for product sales is recognized when risk and title to the product transfer to the customer, which usually occurs at the time shipment is made. Our products are generally sold free on board shipping point or, with respect to countries other than the United States, an equivalent basis. As such, title to the product passes when the product is delivered to the freight carrier. Our standard terms of delivery are included in our contracts of sale, order confirmation documents and invoices. Shipping and other transportation costs charged to customers are recorded in both revenue and cost of goods sold.

We have entered into agreements with some of our customers whereby they earn rebates from us when the volume of their purchases of our product reach certain agreed upon levels. We recognize the rebate obligation ratably, as a reduction of revenue.

LIQUIDITY AND CAPITAL RESOURCES

Description of Senior Secured Credit Facilities

In March 2013, we entered into an asset-based revolving credit facility consisting of a U.S. senior secured revolving credit facility of $150.0 million and a Dutch senior secured revolving credit facility of $100.0 million (the “Senior Secured Credit Facilities”), to replace our then-existing senior secured credit facility, and repaid in full all outstanding amounts payable under the previously existing facility.

The Senior Secured Credit Facilities are primarily secured by receivables and inventory, and borrowing availability under the facilities is subject to borrowing base limitations based on the level of receivables and inventory available for security. The Senior Secured Credit Facilities include a $100.0 million uncommitted accordion feature that, subject to borrowing base availability and approval of the bank syndicate, could increase aggregate availability to $350.0 million. We cannot guarantee that all of the lending counterparties contractually committed to fund a revolving credit draw request will actually fund future requests, although we currently believe that each of the counterparties would meet their funding requirements. The Senior Secured Credit Facilities terminate on March 27, 2018; however, we may, from time to time, request that the lenders extend the maturity of their commitments; provided that at no time shall there be more than four maturity dates under the Senior Secured Credit Facilities.

The Senior Secured Credit Facilities contain a financial covenant requiring us to maintain a fixed charge coverage ratio of 1.0 to 1.0 if availability under the facilities is below specified amounts. Our failure to comply with this financial maintenance covenant would give rise to a default under the Senior Secured Credit Facilities. If factors arise that negatively impact our profitability, we may not be able to satisfy this covenant. In addition, the Senior Secured Credit Facilities contain customary events of default, including, without limitation, a failure to make payments under the facilities, cross-default with respect to other indebtedness and cross-judgment default, certain bankruptcy events and certain change of control events. If we are unable to satisfy the covenants or other provisions of the Senior Secured Credit Facilities at any future time we would need to seek an amendment or waiver of such covenants or other provisions. The respective lenders under the Senior Secured Credit Facilities may elect not to consent to any amendment or waiver requests that we may make in the future, and, if they do consent, they may do so on terms that are not favorable to us. In the event that we are unable to obtain any such waiver or amendment and we are not able to refinance or repay our Senior Secured Credit Facilities, our inability to meet the covenants or other provisions of the Senior Secured Credit Facilities would constitute an event of default, which would permit the bank lenders to accelerate the Senior Secured Credit Facilities. Such acceleration may in turn constitute an event of default under our senior notes or other indebtedness. At December 31, 2014, we were in compliance with the covenants under the Senior Secured Credit Facilities. For additional information regarding our Senior Secured Credit Facilities, see “Senior Secured Credit Facilities” in Note 6 Long-Term Debt to the consolidated financial statements, which is incorporated herein by reference.

Description of 6.75% Senior Notes due 2019

Kraton Polymers LLC and its wholly-owned financing subsidiary Kraton Polymers Capital Corporation issued $350.0 million aggregate principal amount of 6.75% senior notes that mature on March 1, 2019. The notes are general unsecured, senior obligations and are unconditionally guaranteed on a senior unsecured basis. We pay interest on the notes at 6.75% per annum, semi-annually in arrears on March 1 and September 1 of each year. Prior to March 1, 2015, we may redeem all or a part of the senior notes, at a redemption price equal to 100.00% of the principal amount of the senior notes redeemed plus the applicable premium as of such date, plus accrued and unpaid interest, if any, to the applicable redemption date. After March 1, 2015, we may redeem all or a part of the senior notes for 103.375%, 101.688%, and 100.000% of the principal amount in 2015, 2016 and 2017 and thereafter, respectively. At December 31, 2014, we were in compliance with the covenants under the indenture governing our 6.75% senior notes. For additional information regarding our 6.75% senior notes, see “6.75% Senior Notes due 2019" in Note 6 Long-Term Debt to the consolidated financial statements, which is incorporated herein by reference.

Description of KFPC Loan Agreement

On July 17, 2014, KFPC executed the KFPC Loan Agreement in the amount of 5.5 billion NTD, or $173.1 million (converted at the December 31, 2014 exchange rate), to provide additional funding to construct the Specialty Polymers manufacturing facility in Taiwan and to provide funding for working capital requirements and/or general corporate purposes.

The KFPC Loan Agreement is comprised of a NTD 4.29 billion Tranche A, or $135.0 million (converted at the December 31, 2014 exchange rate), to fund KFPC's capital expenditures, and a NTD 1.21 billion Tranche B, or $38.1 million (converted at the December 31, 2014 exchange rate), to fund working capital requirements and/or general corporate purposes. As of December 31, 2014, no draws have been made on the KFPC Loan Agreement and as of the date of this filing, NTD 0.3 billion, or 9.4 million (converted at the February 24, 2015 exchange rate) was drawn and outstanding. The initial term of the KFPC Loan Agreement is five years from the date of the first drawing of either tranche. To the extent that the first drawing has not occurred within six months from the date of the KFPC Loan Agreement, the term will be five years from expiration of this

six-month period. Subject to certain conditions, KFPC can request a two-year extension of the term of the KFPC Loan Agreement.

The total outstanding principal amount is payable in six semi-annual installments with the first payment due upon the expiry of a thirty-month period commencing on the date of the first drawing of loans and each subsequent payment due every six months thereafter. The first five installments shall be in an amount equal to 10% of the outstanding principal amount and the final installment shall be in an amount equal to the remaining 50% of the outstanding principal amount. In the event the extension period is granted, the final 50% of the outstanding principal amount shall be repaid in five equal semi-annual installments with the first installment due on the original final maturity date.

The KFPC Loan Agreement is subject to a variable interest rate composed of a fixed 0.8% margin plus the three-month or six-month fixing rate of the Taipei Interbank Offered Rate (depending on the interest period selected by KFPC in the drawdown request or the interest period notice), subject to a floor of 1.7%. Interest is payable on a monthly basis.

The KFPC Loan Agreement contains certain financial covenants which change during the term of the KFPC Loan Agreement. The financial covenants include a maximum debt to equity ratio of 3.0 to 1.0 commencing in 2014, which will decrease over time to 1.2 to 1.0 in 2018; a minimum tangible net worth requirement of $50.0 million commencing in 2014, which will increase to $100.0 million in 2019; and a minimum interest coverage ratio of 2.5 to 1.0 commencing in 2016, which will increase to 5.0 to 1.0 in 2017. In each case, these covenants are calculated and tested on an annual basis. Formosa Petrochemical Corporation and Kraton Polymers LLC are the guarantors of the KFPC Loan Agreement with each guarantor guaranteeing 50% of the indebtedness. At December 31, 2014, we were in compliance with the covenants under the KFPC Loan Agreement. For additional information regarding our KFPC Loan Agreement, see “KFPC Loan Agreement" in Note 6 Long-Term Debt to the consolidated financial statements, which is incorporated herein by reference.

Known Trends and Uncertainties

Kraton Performance Polymers, Inc. 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 our credit facility are our principal sources of liquidity.

Based upon current and anticipated levels of operations, we believe that cash flows from operations of our subsidiaries, cash on hand, and borrowings available to us will be sufficient to fund our expected financial obligations, planned capital expenditures and anticipated liquidity requirements, including working capital requirements, our investment in the joint venture with FPCC, debt payments, interest payments, benefit plan contributions and income tax obligations. However, these cash flows are subject to a number of risks and uncertainties, including, but not limited to, earnings, sensitivities to the cost of raw materials, seasonality and fluctuations in foreign currency exchange rates. Because feedstock costs generally represent a substantial portion of our cost of goods sold, in periods of rising feedstock costs, we generally consume cash in operating activities due to increases in accounts receivable and inventory costs, partially offset by increased value of accounts payable. Conversely, during periods in which feedstock costs are declining, we generate cash flow from decreases in working capital.

Going forward there can be no assurance that our business will generate sufficient cash flow from operations or that future borrowings will be available under our senior secured credit facilities to fund liquidity needs and enable us to service our indebtedness. At December 31, 2014, we had $53.8 million of cash and cash equivalents, which includes $8.0 million of cash-on-hand at KFPC, the consolidated joint venture in Asia. As of December 31, 2014, our available borrowing capacity under the Senior Secured Credit Facilities was $191.6 million of which $0.0 million was drawn and as of the date of this filing, our available borrowing capacity was $183.7 million, of which $0.0 million was drawn. Excluding the $8.0 million of KFPC cash, our liquidity at December 31, 2014 amounted to $237.4 million.

Our available cash and cash equivalents are held in accounts managed by third-party financial institutions and consist of cash invested in interest bearing funds and operating accounts. To date, we have not experienced any losses or lack of access to our invested cash or cash equivalents; however, we cannot provide any assurance that adverse conditions in the financial markets will not impact access to our invested cash and cash equivalents.

We made contributions of $7.2 million to our pension plan for the year ended December 31, 2014 and $6.2 million for the year ended December 31, 2013. We expect our total pension plan contributions for the year ended December 31, 2015 to be $3.7 million. Our pension plan obligations are predicated on a number of factors, the primary ones being

the return on our pension plan assets and the discount rate used in deriving our pension obligations. If the investment return on our pension plan assets does not meet or exceed expectations during 2015, and the discount rate decreases from the prior year, higher levels of contributions could be required in 2016 and beyond.

As of December 31, 2014, we had $47.3 million of cash and short-term investments related to foreign operations that management asserts are permanently reinvested. As a result of net operating loss carryforwards, management estimates that approximately $1.0 million of additional cash tax expense would be incurred if this cash were repatriated.

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

Our ability to pay principal and interest on our indebtedness, fund working capital, make anticipated capital expenditures and fund our investment in the joint venture with FPCC 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 and Liquidity

Net cash provided by operating activities totaled $29.9 million for the year ended December 31, 2014 and $105.5 million for the year ended December 31, 2013. This represents a net decrease of $75.6 million, which was primarily driven by changes in working capital. The net change in working capital was a use of cash of $53.2 million in 2014 compared to a source of cash of $43.8 million in 2013, a period-over-period decline in cash flows of $97.0 million. The period-over-period changes are as follows:

- $27.1 million decrease in cash flows associated with inventories of products, materials and supplies, largely due to increases in the quantities of finished goods inventories partially offset by decreases in the costs of raw material and finished goods inventories;
- $50.3 million decrease in cash flows associated with trade accounts payable primarily due to the timing of payments and a decrease in the cost of raw materials; and
- $33.8 million net decrease in cash flows due to the timing of payments of other items, including related party transactions, taxes, and pension costs; partially offset by
- $14.2 million increase in cash flows associated with accounts receivable reflecting improved days sales outstanding and lower sales volumes.

Net cash provided by operating activities totaled $105.5 million for the year ended December 31, 2013 and $146.3 million for the year ended December 31, 2012. This represents a net decrease of $40.9 million, which was primarily driven by changes in working capital. The net change in working capital was a source of cash of $43.8 million in 2013 compared to a source of cash of $72.9 million in 2012; a period-over-period decline in cash flows of $29.0 million. The period-over-period changes are as follows:

- $42.4 million decrease in cash flows associated with inventories of products, materials and supplies, largely due to changes in the quantity of raw material and finished goods inventories and to a lesser extent the costs of raw materials and finished goods inventories;
- $17.8 million decrease in cash flows associated with accounts receivable reflecting changes in timing of cash receipts and sales volumes, partially offset by decreases in revenue per ton; partially offset by
- $6.3 million increase in cash flows associated with trade accounts payable primarily due to the timing of payments partially offset by a decrease in the cost of raw materials; and
- $24.9 million net increase in cash flows due to the timing of payments of other items, including related party transactions, taxes, and pension costs.

Investing Cash Flows

Net cash used in investing activities totaled $114.4 million for the year ended December 31, 2014 and $88.7 million for the year ended December 31, 2013. Capital projects in 2014 included the following:

- $44.3 million for KFPC joint venture project construction costs;
- $39.0 million related to projects to optimize the production capabilities of our manufacturing assets, which includes $26.8 million to comply with the MACT rule; and
- $20.7 million related to health, safety and environmental, including infrastructure and maintenance projects.

Net cash used in investing activities totaled $88.7 million for the year ended December 31, 2013 and $69.9 million for the year ended December 31, 2012. Capital projects in 2013 included the following:

- $11.9 million for KFPC joint venture project construction costs;

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- $23.7 million to support our innovation platform, which includes $17.9 million related to the semi-works facility;
- $27.3 million related to projects to optimize the production capabilities of our manufacturing assets, which includes $13.6 million to comply with the MACT rule; and
- $18.1 million related to health, safety and environmental, including infrastructure and maintenance projects.

Expected Capital Expenditures. We currently expect 2015 capital expenditures, excluding expenditures by the KFPC joint venture, will be approximately $60.0 million to $65.0 million. Included in this estimate is approximately $19.0 million to $22.0 million for health, safety and environmental and infrastructure and maintenance projects. The remaining anticipated 2015 capital expenditures are primarily associated with projects to optimize the production capabilities of our manufacturing assets and to support our innovation platform.

We currently anticipate the total KFPC joint venture project construction cost will be at least $200.0 million, of which, 2014 capital expenditures were $44.3 million and 2015 capital expenditures will be approximately $130.0 million to $140.0 million. The project has been funded with a combination of equity and debt financing. From the inception of the project to December 31, 2014, we and FPCC have each made equity investments of $41.6 million to KFPC. On July 17, 2014, KFPC executed a syndicated loan agreement in the amount of 5.5 billion New Taiwan Dollars, or $173.1 million (converted at the December 31, 2014 exchange rate), to provide the debt portion of the project financing including funding for working capital and/or general corporate purposes. Kraton Polymers LLC and FPCC are guarantors of the KFPC Loan Agreement with each guaranteeing 50.0% of the indebtedness. See Note 6 Long-Term Debt to the consolidated financial statements for further discussion of the KFPC Loan Agreement.

Financing Cash Flows and Liquidity

Our consolidated capital structure as of December 31, 2014 was approximately 52.5% equity, 42.9% debt and 4.6% noncontrolling interest compared to approximately 56.8% equity, 38.7% debt and 4.5% noncontrolling interest as of December 31, 2013.

Net cash used in financing activities totaled $24.4 million for the year ended December 31, 2014 compared to net cash used in financing activities of $62.2 million for the year ended December 31, 2013. In 2014, we repurchased $18.7 million in shares of our common stock as part of our share repurchase program approved in October 2014. In 2013, we repaid the $96.9 million remaining principal amount of term loans and received $41.6 million from FPCC, which represents their portion of the equity investment in the KFPC joint venture.

Net cash used in financing activities totaled $62.2 million for the year ended December 31, 2013 compared to net cash provided by financing activities of $53.4 million for the year ended December 31, 2012. In 2013, we repaid the $96.9 million remaining principal amount of term loans and received $41.6 million from FPCC, which represents their portion of the equity investment in the KFPC joint venture. In 2012, we increased the amount outstanding under the 6.75% Senior Notes by $100.0 million and made a $40.0 million voluntary prepayment on the term loan portion of the senior secured credit facility.

Other Contingencies

As a chemicals manufacturer, our operations in the United States and abroad are subject to a wide range of environmental laws and regulations at both the national and local levels. These laws and regulations govern, among other things, air emissions, wastewater discharges, solid and hazardous waste management, site remediation programs and chemical use and management.

Pursuant to these laws and regulations, our facilities are required to obtain and comply with a wide variety of environmental permits 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 the context of the separation 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 addition, we may in the future be subject to claims that arise solely from events or circumstances occurring after February 2001, which would not, in any event, be covered by the Shell Chemicals' indemnity. 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.

The EPA issued new MACT standards for controlling hazardous air emissions from industrial boilers. The MACT rule applies to the coal-burning boilers at our Belpre, Ohio, facility. On January 31, 2013, the EPA published standards for industrial boilers, and certain incinerators, and non-hazardous secondary materials in the Federal Register with an effective date of April 1, 2013 and a compliance date of January 31, 2016, three years from the date of publication in the Federal Register. In response to a number of petitions for reconsideration, in August 2013, the EPA issued letters granting reconsideration on three issues raised in the petition. The three issues included in the EPA's grant of reconsideration relate to (i) the definition of startup and shutdown periods and applicable work practices during such periods, (ii) revisions made to carbon monoxide limits and (iii) the use of particulate matter continuous parameter monitoring systems. On January 21, 2015, the EPA published a notice in the Federal Register announcing reconsideration of these three issues, proposing certain revisions to the definitions of startup and shutdown and to the applicable work practice standard during the startup and shutdown period, as well as a number of technical clarifying changes and corrections to the rule, and requesting public comment on the three issues and proposed revisions. We plan to be in compliance with the MACT standards prior to the expiration of the compliance period.

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 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, 2014, 2013 or 2012.

Off-Balance Sheet Arrangements

We are not a party to any material off-balance sheet arrangements as of December 31, 2014, other than operating leases.

Contractual Obligations

Our principal outstanding contractual obligations relate to the senior notes and related 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 styrene, butadiene and isoprene. The following table summarizes our contractual cash obligations as of December 31, 2014 for the periods indicated.

| | Payments Due by Period | | | | | | |
|---|---|---|---|---|---|---|---|
| Dollars in Millions | Total | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 and after |
| Long-term debt obligations | $350.0 | $— | $— | $— | $— | $350.0 | $— |
| Estimated interest payments on debt | 101.5 | 24.6 | 24.6 | 24.6 | 23.8 | 3.9 | — |
| Operating lease obligations | 47.5 | 15.5 | 11.7 | 7.1 | 4.2 | 3.7 | 5.3 |
| Capital lease obligation | 1.0 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.5 |
| Purchase obligations (1) | 2,772.2 | 267.8 | 239.8 | 105.0 | 112.8 | 113.2 | 1,933.6 |
| Estimated pension obligations (2) | 36.6 | — | 0.7 | 1.3 | 2.1 | 3.3 | 29.2 |
| Total contractual cash obligations | $3,308.8 | $308.0 | $276.9 | $138.1 | $143.0 | $474.2 | $1,968.6 |

(1) 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.

(2) This represents our future pension contributions utilizing the following assumptions:

- The plan was “frozen” at December 31, 2014;
- All assets at December 31, 2014 were moved into a portfolio of high quality bonds whose cash flow matches the expected cash flow of the “frozen” plan. The yield on the portfolio of bonds as of December 31, 2014 is equal to the estimated PPA effective rate at January 1, 2015. Assets were assumed to remain in such portfolio until all obligations of the plan were paid out;
- An estimated PPA effective rate as of January 1, 2015 of 4.45%.;
- All contributions are made at the latest date allowable by law; and
- All other assumptions as used in the 2014 funding actuarial valuation of the plan are met.

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 believe the effects of inflation, if any, on our results of operations and financial condition have been immaterial.

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 speculative investment purposes. The market risk sensitive instruments that we have entered into as of December 31, 2014 consist of a series of non-deliverable forward contracts.

Interest rate risk. We were exposed to interest rate risk as a result of our previously outstanding variable rate debt under our senior secured credit agreement which we refinanced in Ma