

KAISER ALUMINUM CORP  
Form 10-Q  
October 25, 2016

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

FORM 10-Q

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

For the quarterly period ended September 30, 2016

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

For the transition period from \_\_\_\_\_  
to \_\_\_\_\_

Commission File Number: 1-09447

KAISER ALUMINUM CORPORATION  
(Exact name of registrant as specified in its charter)  
Delaware  
(State of incorporation)

94-3030279  
(I.R.S. Employer  
Identification No.)

27422 Portola Parkway, Suite  
200 Foothill Ranch, California  
(Address of principal executive  
offices)

92610-2831  
(Zip Code)

(949) 614-1740

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months, and (2) has been subject to such filing requirements for the past 90 days.

Yes ☐ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes ☐ No ☐

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

Large accelerated filer ☐

Accelerated filer ☐

Edgar Filing: KAISER ALUMINUM CORP - Form 10-Q

Non-accelerated filer ☐ (Do not check if a smaller reporting company) ☐ Smaller reporting company ☐  
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐  
☒ No ☐

As of October 17, 2016, there were 17,909,053 shares of common stock of the registrant outstanding.

---

TABLE OF CONTENTS

PART I

|                                                                                                      |           |
|------------------------------------------------------------------------------------------------------|-----------|
| <u>Item 1. Financial Statements</u>                                                                  | <u>1</u>  |
| <u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u> | <u>44</u> |
| <u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>                            | <u>58</u> |
| <u>Item 4. Controls and Procedures</u>                                                               | <u>59</u> |

PART II

|                                                                            |           |
|----------------------------------------------------------------------------|-----------|
| <u>Item 1. Legal Proceedings</u>                                           | <u>60</u> |
| <u>Item 1A. Risk Factors</u>                                               | <u>60</u> |
| <u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u> | <u>64</u> |
| <u>Item 3. Defaults Upon Senior Securities</u>                             | <u>65</u> |
| <u>Item 4. Mine Safety Disclosures</u>                                     | <u>65</u> |
| <u>Item 5. Other Information</u>                                           | <u>65</u> |
| <u>Item 6. Exhibits</u>                                                    | <u>66</u> |

|                   |           |
|-------------------|-----------|
| <u>SIGNATURES</u> | <u>67</u> |
|-------------------|-----------|

|                          |           |
|--------------------------|-----------|
| <u>INDEX OF EXHIBITS</u> | <u>68</u> |
|--------------------------|-----------|



## KAISER ALUMINUM CORPORATION AND SUBSIDIARY COMPANIES

## PART I – FINANCIAL INFORMATION

## Item 1. Financial Statements

## CONSOLIDATED BALANCE SHEETS (UNAUDITED)

|                                                                                                                                                                                                                                                                                     | September 30,<br>2016                                              | December 31,<br>2015 |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------|----------------------|
|                                                                                                                                                                                                                                                                                     | (In millions of dollars,<br>except share and per<br>share amounts) |                      |
| <b>ASSETS</b>                                                                                                                                                                                                                                                                       |                                                                    |                      |
| Current assets:                                                                                                                                                                                                                                                                     |                                                                    |                      |
| Cash and cash equivalents                                                                                                                                                                                                                                                           | \$72.9                                                             | \$ 72.5              |
| Short-term investments                                                                                                                                                                                                                                                              | 201.0                                                              | 30.0                 |
| Receivables:                                                                                                                                                                                                                                                                        |                                                                    |                      |
| Trade receivables – net                                                                                                                                                                                                                                                             | 142.2                                                              | 116.7                |
| Other                                                                                                                                                                                                                                                                               | 7.3                                                                | 6.1                  |
| Inventories                                                                                                                                                                                                                                                                         | 223.6                                                              | 219.6                |
| Prepaid expenses and other current assets <sup>1</sup>                                                                                                                                                                                                                              | 10.9                                                               | 56.7                 |
| Total current assets                                                                                                                                                                                                                                                                | 657.9                                                              | 501.6                |
| Property, plant and equipment – net                                                                                                                                                                                                                                                 | 518.6                                                              | 495.4                |
| Deferred tax assets – net <sup>2</sup>                                                                                                                                                                                                                                              | 170.9                                                              | 163.3                |
| Intangible assets – net                                                                                                                                                                                                                                                             | 26.7                                                               | 30.5                 |
| Goodwill                                                                                                                                                                                                                                                                            | 37.2                                                               | 37.2                 |
| Other assets <sup>1</sup>                                                                                                                                                                                                                                                           | 22.1                                                               | 19.6                 |
| Total                                                                                                                                                                                                                                                                               | \$1,433.4                                                          | \$ 1,247.6           |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>                                                                                                                                                                                                                                         |                                                                    |                      |
| Current liabilities:                                                                                                                                                                                                                                                                |                                                                    |                      |
| Accounts payable                                                                                                                                                                                                                                                                    | \$69.6                                                             | \$ 76.7              |
| Accrued salaries, wages and related expenses                                                                                                                                                                                                                                        | 42.8                                                               | 39.8                 |
| Other accrued liabilities                                                                                                                                                                                                                                                           | 46.7                                                               | 52.7                 |
| Short-term capital leases                                                                                                                                                                                                                                                           | 0.1                                                                | 0.1                  |
| Total current liabilities                                                                                                                                                                                                                                                           | 159.2                                                              | 169.3                |
| Net liabilities of Salaried VEBA                                                                                                                                                                                                                                                    | 18.2                                                               | 19.0                 |
| Deferred tax liabilities                                                                                                                                                                                                                                                            | 2.2                                                                | 2.1                  |
| Long-term liabilities                                                                                                                                                                                                                                                               | 71.2                                                               | 87.5                 |
| Long-term debt <sup>1</sup>                                                                                                                                                                                                                                                         | 368.5                                                              | 194.6                |
| Total liabilities                                                                                                                                                                                                                                                                   | 619.3                                                              | 472.5                |
| Commitments and contingencies – Note 7                                                                                                                                                                                                                                              |                                                                    |                      |
| Stockholders' equity:                                                                                                                                                                                                                                                               |                                                                    |                      |
| Preferred stock, 5,000,000 shares authorized at both September 30, 2016 and December 31, 2015; no shares were issued and outstanding at September 30, 2016 and December 31, 2015                                                                                                    | —                                                                  | —                    |
| Common stock, par value \$0.01, 90,000,000 shares authorized at both September 30, 2016 and at December 31, 2015; 22,330,955 shares issued and 17,923,218 shares outstanding at September 30, 2016; 22,291,180 shares issued and 18,053,747 shares outstanding at December 31, 2015 | 0.2                                                                | 0.2                  |
| Additional paid in capital <sup>2</sup>                                                                                                                                                                                                                                             | 1,044.3                                                            | 1,037.3              |
| Retained earnings <sup>2</sup>                                                                                                                                                                                                                                                      | 58.7                                                               | 15.8                 |
| Treasury stock, at cost, 4,407,737 shares at September 30, 2016 and 4,237,433 shares at December 31, 2015, respectively                                                                                                                                                             | (260.3 )                                                           | (246.5 )             |

Edgar Filing: KAISER ALUMINUM CORP - Form 10-Q

|                                      |           |            |
|--------------------------------------|-----------|------------|
| Accumulated other comprehensive loss | (28.8 )   | (31.7 )    |
| Total stockholders' equity           | 814.1     | 775.1      |
| Total                                | \$1,433.4 | \$ 1,247.6 |

---

<sup>1</sup> See Note 1 for discussion of our adoption of ASU 2015-03 and ASU 2015-17 (as defined in Note 1).

<sup>2</sup> See Note 4 and Note 6 for discussion of our adoption of ASU 2016-09 (as defined in Note 1).

The accompanying notes to interim consolidated financial statements are an integral part of these statements.

KAISER ALUMINUM CORPORATION AND SUBSIDIARY COMPANIES  
STATEMENTS OF CONSOLIDATED INCOME (LOSS) (UNAUDITED)

|                                                                                | Quarter Ended                                                |         | Nine Months Ended |           |   |
|--------------------------------------------------------------------------------|--------------------------------------------------------------|---------|-------------------|-----------|---|
|                                                                                | September 30,                                                |         | September 30,     |           |   |
|                                                                                | 2016                                                         | 2015    | 2016              | 2015      |   |
|                                                                                | (In millions of dollars, except share and per share amounts) |         |                   |           |   |
| Net sales                                                                      | \$320.6                                                      | \$336.4 | \$998.7           | \$1,075.3 |   |
| Costs and expenses:                                                            |                                                              |         |                   |           |   |
| Cost of products sold:                                                         |                                                              |         |                   |           |   |
| Cost of products sold, excluding depreciation and amortization and other items | 254.7                                                        | 267.3   | 767.1             | 864.4     |   |
| Lower of cost or market inventory write-down                                   | —                                                            | —       | 4.9               | —         |   |
| Unrealized (gain) loss on derivative instruments                               | (2.0                                                         | ) 1.7   | (16.9             | ) 7.7     |   |
| Depreciation and amortization                                                  | 9.0                                                          | 8.1     | 26.7              | 24.2      |   |
| Selling, general, administrative, research and development:                    |                                                              |         |                   |           |   |
| Selling, general, administrative, research and development                     | 25.6                                                         | 21.1    | 79.2              | 67.4      |   |
| Net periodic postretirement benefit cost relating to Salaried VEBA             | 0.8                                                          | 0.6     | 2.5               | 1.8       |   |
| (Gain) loss on removal of Union VEBA net assets – Note 5                       | —                                                            | (2.9    | ) (0.1            | ) 490.9   |   |
| Total selling, general, administrative, research and development               | 26.4                                                         | 18.8    | 81.6              | 560.1     |   |
| Other operating charges, net                                                   | 2.7                                                          | —       | 2.8               | —         |   |
| Total costs and expenses                                                       | 290.8                                                        | 295.9   | 866.2             | 1,456.4   |   |
| Operating income (loss)                                                        | 29.8                                                         | 40.5    | 132.5             | (381.1    | ) |
| Other expense:                                                                 |                                                              |         |                   |           |   |
| Interest expense                                                               | (5.5                                                         | ) (4.9  | ) (14.7           | ) (19.9   | ) |
| Other expense, net – Note 13                                                   | —                                                            | (0.9    | ) (10.4           | ) (0.1    | ) |
| Income (loss) before income taxes                                              | 24.3                                                         | 34.7    | 107.4             | (401.1    | ) |
| Income tax (provision) benefit                                                 | (9.4                                                         | ) (12.6 | ) (40.2           | ) 151.2   | ) |
| Net income (loss)                                                              | \$14.9                                                       | \$22.1  | \$67.2            | \$(249.9  | ) |
| Net income (loss) per common share:                                            |                                                              |         |                   |           |   |
| Basic                                                                          | \$0.84                                                       | \$1.29  | \$3.76            | \$(14.55  | ) |
| Diluted                                                                        | \$0.82                                                       | \$1.21  | \$3.70            | \$(14.55  | ) |
| Weighted-average number of common shares outstanding (in thousands):           |                                                              |         |                   |           |   |
| Basic                                                                          | 17,841                                                       | 17,123  | 17,858            | 17,178    |   |
| Diluted                                                                        | 18,175                                                       | 18,172  | 18,181            | 17,178    |   |
| Dividends declared per common share                                            | \$0.45                                                       | \$0.40  | \$1.35            | \$1.20    |   |

The accompanying notes to interim consolidated financial statements are an integral part of these statements.

KAISER ALUMINUM CORPORATION AND SUBSIDIARY COMPANIES  
 STATEMENTS OF CONSOLIDATED COMPREHENSIVE INCOME (LOSS) (UNAUDITED)

|                                                                                          | Quarter Ended            |        | Nine Months Ended |           |
|------------------------------------------------------------------------------------------|--------------------------|--------|-------------------|-----------|
|                                                                                          | September 30,            |        | September 30,     |           |
|                                                                                          | 2016                     | 2015   | 2016              | 2015      |
|                                                                                          | (In millions of dollars) |        |                   |           |
| Net income (loss)                                                                        | \$14.9                   | \$22.1 | \$67.2            | \$(249.9) |
| Other comprehensive income:                                                              |                          |        |                   |           |
| VEBAs:                                                                                   |                          |        |                   |           |
| Reclassification adjustments:                                                            |                          |        |                   |           |
| Amortization of net actuarial loss                                                       | 0.1                      | 0.3    | 0.3               | 0.8       |
| Amortization of prior service cost                                                       | 1.0                      | 0.7    | 3.0               | 2.2       |
| Removal of obligation relating to Union VEBA                                             | —                        | —      | —                 | 106.6     |
| Other comprehensive income relating to VEBAs                                             | 1.1                      | 1.0    | 3.3               | 109.6     |
| Available for sale securities:                                                           |                          |        |                   |           |
| Unrealized gain (loss) on available for sale securities                                  | 0.9                      | (0.4 ) | 1.3               | (0.7 )    |
| Reclassification adjustments:                                                            |                          |        |                   |           |
| Reclassification of unrealized (gain) loss upon sale of available for sale securities    | (0.3 )                   | (0.1 ) | (0.3 )            | 0.1       |
| Other comprehensive income (loss) relating to available for sale securities              | 0.6                      | (0.5 ) | 1.0               | (0.6 )    |
| Translation gain on Canadian pension plan accumulated other comprehensive income balance | —                        | —      | 0.1               | —         |
| Unrealized gain (loss) on foreign currency cash flow hedges                              | 0.1                      | —      | 0.2               | (0.2 )    |
| Foreign currency translation loss                                                        | —                        | (0.3 ) | —                 | (0.2 )    |
| Other comprehensive income, before tax                                                   | 1.8                      | 0.2    | 4.6               | 108.6     |
| Income tax expense related to items of other comprehensive income                        | (0.7 )                   | (0.1 ) | (1.7 )            | (41.2 )   |
| Other comprehensive income, net of tax                                                   | 1.1                      | 0.1    | 2.9               | 67.4      |
| Comprehensive income (loss)                                                              | \$16.0                   | \$22.2 | \$70.1            | \$(182.5) |

The accompanying notes to interim consolidated financial statements are an integral part of these statements.

KAISER ALUMINUM CORPORATION AND SUBSIDIARY COMPANIES  
STATEMENT OF CONSOLIDATED STOCKHOLDERS' EQUITY (UNAUDITED)

|                                                                                                                           | Common<br>Shares<br>Outstanding | Common<br>Stock | Additional<br>Paid in<br>Capital | Retained<br>Earnings | Treasury<br>Stock | Accumulated<br>Other<br>Comprehensive<br>Loss | Total    |
|---------------------------------------------------------------------------------------------------------------------------|---------------------------------|-----------------|----------------------------------|----------------------|-------------------|-----------------------------------------------|----------|
| (In millions of dollars, except share and per share amounts)                                                              |                                 |                 |                                  |                      |                   |                                               |          |
| BALANCE, December 31, 2015                                                                                                | 18,053,747                      | \$ 0.2          | \$ 1,036.5                       | \$ 15.9              | \$(246.5)         | \$ (31.7 )                                    | \$ 774.4 |
| Cumulative-effect adjustment <sup>1</sup>                                                                                 | —                               | —               | 0.8                              | (0.1 )               | —                 | —                                             | 0.7      |
| BALANCE, January 1, 2016                                                                                                  | 18,053,747                      | \$ 0.2          | \$ 1,037.3                       | \$ 15.8              | \$(246.5)         | \$ (31.7 )                                    | \$ 775.1 |
| Net income                                                                                                                | —                               | —               | —                                | 67.2                 | —                 | —                                             | 67.2     |
| Other comprehensive income, net of tax                                                                                    | —                               | —               | —                                | —                    | —                 | 2.9                                           | 2.9      |
| Issuance of non-vested shares to employees and non-employee directors                                                     | 9,702                           | —               | —                                | —                    | —                 | —                                             | —        |
| Issuance of common shares to non-employee directors                                                                       | 1,474                           | —               | 0.1                              | —                    | —                 | —                                             | 0.1      |
| Issuance of common shares to employees upon option exercises and vesting of restricted stock units and performance shares | 64,476                          | —               | 1.0                              | —                    | —                 | —                                             | 1.0      |
| Cancellation of employee non-vested shares                                                                                | (379 )                          | —               | —                                | —                    | —                 | —                                             | —        |
| Cancellation of shares to cover employees' tax withholdings upon vesting of non-vested shares                             | (35,498 )                       | —               | (2.8 )                           | —                    | —                 | —                                             | (2.8 )   |
| Repurchase of common stock                                                                                                | (170,304 )                      | —               | —                                | —                    | (13.8 )           | —                                             | (13.8 )  |
| Cash dividends on common stock (\$1.35 per share)                                                                         | —                               | —               | —                                | (24.4 )              | —                 | —                                             | (24.4 )  |
| Amortization of unearned equity compensation                                                                              | —                               | —               | 8.7                              | —                    | —                 | —                                             | 8.7      |
| Dividends on unvested equity awards that were canceled                                                                    | —                               | —               | —                                | 0.1                  | —                 | —                                             | 0.1      |
| BALANCE, September 30, 2016                                                                                               | 17,923,218                      | \$ 0.2          | \$ 1,044.3                       | \$ 58.7              | \$(260.3)         | \$ (28.8 )                                    | \$ 814.1 |

<sup>1</sup> See Note 4 and Note 6 for discussion of our adoption of ASU 2016-09 (as defined in Note 1).

The accompanying notes to interim consolidated financial statements are an integral part of these statements.

KAISER ALUMINUM CORPORATION AND SUBSIDIARY COMPANIES  
STATEMENTS OF CONSOLIDATED CASH FLOWS (UNAUDITED)

|                                                                                                                            | Nine Months<br>Ended<br>September 30,<br>2016 2015<br>(In millions of<br>dollars) |           |
|----------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------|-----------|
| Cash flows from operating activities:                                                                                      |                                                                                   |           |
| Net income (loss)                                                                                                          | \$67.2                                                                            | \$(249.9) |
| Adjustments to reconcile net income (loss) to net cash provided by operating activities:                                   |                                                                                   |           |
| Depreciation of property, plant and equipment                                                                              | 25.5                                                                              | 23.0      |
| Amortization of definite-lived intangible assets                                                                           | 1.2                                                                               | 1.2       |
| Amortization of debt discount and debt issuance costs                                                                      | 0.8                                                                               | 4.2       |
| Deferred income taxes – Note 1                                                                                             | 40.7                                                                              | (151.0 )  |
| Excess tax benefit upon vesting of non-vested shares and dividend payment on unvested shares expected to vest <sup>1</sup> | —                                                                                 | (1.1 )    |
| Non-cash equity compensation <sup>1</sup>                                                                                  | 8.8                                                                               | 7.0       |
| Lower of cost or market write-down                                                                                         | 4.9                                                                               | —         |
| Loss on extinguishment of debt                                                                                             | 11.1                                                                              | —         |
| Non-cash unrealized (gain) loss on derivative instruments                                                                  | (16.9 )                                                                           | 7.7       |
| Non-cash impairment charge                                                                                                 | 2.6                                                                               | —         |
| Loss on disposition of property, plant and equipment                                                                       | 0.2                                                                               | 0.2       |
| Non-cash net periodic postretirement benefit cost relating to Salaried VEBA                                                | 2.5                                                                               | 1.8       |
| Non-cash loss on removal of Union VEBA net assets <sup>2</sup>                                                             | —                                                                                 | 446.7     |
| Other non-cash changes in assets and liabilities                                                                           | 1.1                                                                               | 0.4       |
| Changes in operating assets and liabilities:                                                                               |                                                                                   |           |
| Trade and other receivables                                                                                                | (26.7 )                                                                           | 4.2       |
| Inventories, excluding lower of cost or market write-down                                                                  | (8.9 )                                                                            | (2.6 )    |
| Prepaid expenses and other current assets                                                                                  | (0.9 )                                                                            | —         |
| Accounts payable                                                                                                           | 0.8                                                                               | (15.0 )   |
| Accrued liabilities <sup>2</sup>                                                                                           | 27.9                                                                              | 19.7      |
| Annual variable cash contributions to VEBAs <sup>2</sup>                                                                   | (19.5 )                                                                           | (13.7 )   |
| Long-term assets and liabilities, net <sup>2</sup>                                                                         | (15.8 )                                                                           | 26.1      |
| Net cash provided by operating activities                                                                                  | 106.6                                                                             | 108.9     |
| Cash flows from investing activities <sup>3</sup> :                                                                        |                                                                                   |           |
| Capital expenditures                                                                                                       | (57.4 )                                                                           | (38.4 )   |
| Purchase of available for sale securities                                                                                  | (201.1)                                                                           | (0.5 )    |
| Proceeds from disposition of available for sale securities                                                                 | 30.0                                                                              | 84.0      |
| Net cash (used in) provided by investing activities                                                                        | (228.5)                                                                           | 45.1      |
| Cash flows from financing activities <sup>3</sup> :                                                                        |                                                                                   |           |
| Repayment of principal and redemption premium of 8.25% Senior Notes                                                        | (206.0)                                                                           | (6.1 )    |
| Issuance of 5.875% Senior Notes                                                                                            | 375.0                                                                             | —         |
| Cash paid for debt issuance costs                                                                                          | (6.8 )                                                                            | —         |
| Repayment of Convertible Notes                                                                                             | —                                                                                 | (175.0 )  |
| Proceeds from cash-settled call options related to repayment of Convertible Notes                                          | —                                                                                 | 94.9      |
| Payment for conversion premium related to repayment of Convertible Notes                                                   | —                                                                                 | (94.9 )   |
| Proceeds from stock option exercises                                                                                       | 1.0                                                                               | —         |
| Repayment of capital lease                                                                                                 | (0.1 )                                                                            | —         |



|                                                                                                                            | Nine Months<br>Ended<br>September 30, |         |
|----------------------------------------------------------------------------------------------------------------------------|---------------------------------------|---------|
|                                                                                                                            | 2016                                  | 2015    |
| Excess tax benefit upon vesting of non-vested shares and dividend payment on unvested shares expected to vest <sup>1</sup> | —                                     | 1.1     |
| Cancellation of shares to cover employees' tax withholdings upon vesting of non-vested shares                              | (2.8 )                                | (3.0 )  |
| Repurchase of common stock                                                                                                 | (13.6 )                               | (45.1 ) |
| Cash dividends paid to stockholders                                                                                        | (24.4 )                               | (21.0 ) |
| Net cash provided by (used in) financing activities                                                                        | 122.3                                 | (249.1) |
| Net increase (decrease) in cash and cash equivalents during the period                                                     | 0.4                                   | (95.1 ) |
| Cash and cash equivalents at beginning of period                                                                           | 72.5                                  | 177.7   |
| Cash and cash equivalents at end of period                                                                                 | \$72.9                                | \$82.6  |

<sup>1</sup> See Note 4 and Note 6 for discussion of our adoption of ASU 2016-09.

<sup>2</sup> See Note 5 for the impact of removing the Union VEBA (defined in Note 5) net assets.

<sup>3</sup> See Note 12 for the supplemental disclosure on non-cash transactions.

The accompanying notes to interim consolidated financial statements are an integral part of these statements.

KAISER ALUMINUM CORPORATION AND SUBSIDIARY COMPANIES  
NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS - UNAUDITED

1. Summary of Significant Accounting Policies

This Quarterly Report on Form 10-Q (this "Report") should be read in conjunction with the Company's Annual Report on Form 10-K for the year ended December 31, 2015. Unless the context otherwise requires, references in these notes to interim consolidated financial statements - unaudited to "Kaiser Aluminum Corporation," "we," "us," "our," "the Company" and "our Company" refer collectively to Kaiser Aluminum Corporation and its subsidiaries.

**Organization and Nature of Operations.** Kaiser Aluminum Corporation specializes in the production of semi-fabricated specialty aluminum products, such as aluminum plate and sheet and extruded and drawn products, primarily used in aerospace/high strength, automotive, general engineering and other industrial end market applications. Our business is organized into one operating segment, Fabricated Products. See Note 11 for additional information regarding our reportable segment and business unit.

**Principles of Consolidation and Basis of Presentation.** The accompanying unaudited consolidated financial statements include the accounts of our wholly owned subsidiaries and are prepared in accordance with United States generally accepted accounting principles ("GAAP") and the rules and regulations of the Securities and Exchange Commission ("SEC") applicable for interim periods and, therefore, do not include all information and footnotes required by GAAP for complete financial statements. In management's opinion, all adjustments (which include normal recurring adjustments) considered necessary for a fair presentation have been included. The results of operations for our interim periods are not necessarily indicative of the results of operations that may be achieved for the entire 2016 fiscal year. The financial information as of December 31, 2015 is derived from our audited consolidated financial statements and footnotes included in our Annual Report on Form 10-K for the year ended December 31, 2015. See New Accounting Pronouncements below for a discussion of new accounting pronouncements we adopted during the quarter ended March 31, 2016 requiring cumulative-effect adjustments that impacted our consolidated financial statements and footnotes for the year ended December 31, 2015.

**Use of Estimates in the Preparation of Financial Statements.** The preparation of financial statements in accordance with GAAP requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities known to exist as of the date the financial statements are published and the reported amounts of revenues and expenses during the reporting period. Uncertainties with respect to such estimates and assumptions are inherent in the preparation of our consolidated financial statements; accordingly, it is possible that the actual results could differ from these estimates and assumptions, which could have a material effect on the reported amounts of our consolidated financial position and results of operations.

**Inventories.** Inventories are stated at the lower of cost or market value. During the quarter ended March 31, 2016, we recorded a lower of cost or market inventory write-down of \$4.9 million, predominantly as a result of a decrease in our net realizable value of inventory. The net realizable value reflected commitments as of that date from customers to purchase our inventory at prices that exceeded the Midwest Transaction Price ("Midwest Price"), which reflects the primary aluminum supply/demand dynamics in North America, reduced by an approximate normal profit margin. There were no lower of cost or market inventory adjustments during the quarters ended June 30, 2016 and September 30, 2016.

Finished products, work-in-process and raw material inventories are stated on the last-in, first-out ("LIFO") basis. At September 30, 2016 and December 31, 2015, after inventory write-down adjustments, the stated LIFO value of inventory represented its net realizable value (less a normal profit margin) and exceeded the current cost of our inventory by \$11.2 million and \$24.1 million, respectively. Other inventories, principally operating supplies and repair and maintenance parts, are stated on the first-in, first-out basis. Inventory costs consist of material, labor and manufacturing overhead, including depreciation. Abnormal costs, such as idle facility expenses, freight, handling costs and spoilage, are accounted for as current period charges. All of our inventories at September 30, 2016 and December 31, 2015 were included in the Fabricated Products segment (see Note 2 for the components of inventories). **Property, Plant and Equipment – Net.** Property, plant and equipment is recorded at cost (see Note 2). Construction in progress is included within Property, plant and equipment – net on the Consolidated Balance Sheets. Interest related to the construction of qualifying assets is capitalized as part of the construction costs. The aggregate amount of interest

capitalized is limited to the interest expense incurred in the period. The amount of interest expense capitalized as construction in progress was \$0.6 million and \$0.4 million during the quarters ended September 30, 2016 and September 30, 2015, respectively. The amount of interest expense capitalized as construction in progress was \$2.4 million and \$1.1 million during the nine months ended September 30, 2016 and September 30, 2015, respectively.

KAISER ALUMINUM CORPORATION AND SUBSIDIARY COMPANIES  
NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS - UNAUDITED

Depreciation is computed using the straight-line method at rates based on the estimated useful lives of the various classes of assets. Capital lease assets and leasehold improvements are depreciated on a straight-line basis over the shorter of the estimated useful lives of the assets or the lease term. Depreciation expense is not included in Cost of products sold, excluding depreciation and amortization and other items, but is included in Depreciation and amortization on the Statements of Consolidated Income (Loss).

We classify assets as held for sale only when an asset is being actively marketed and expected to sell within 12 months. Assets held for sale are initially measured at the lesser of the assets' carrying amount and the fair value less costs to sell.

**Self Insurance of Employee Health and Workers' Compensation Liabilities.** We self-insure the majority of the costs of employee health care benefits and workers' compensation benefits and rely on insurance coverage to protect us from large losses on individual claims. Workers' compensation liabilities are based on a combination of estimates for: (i) incurred-but-not-reported claims and (ii) the ultimate expense of incurred claims. Such estimates are based on judgment, using our historical claims data and information and analysis provided by actuarial and claims advisors, our insurance carriers and other professionals. Our undiscounted workers' compensation liabilities were estimated at \$25.5 million and \$23.5 million at September 30, 2016 and December 31, 2015, respectively. However, we account for our workers' compensation accrued liability on a discounted basis, using a discount rate of 1.75% at both September 30, 2016 and December 31, 2015. Accrued liabilities for employee healthcare benefits, which are estimates of unpaid incurred medical and prescription drug costs as provided by our healthcare administrators, were \$3.3 million and \$3.2 million for the periods ended September 30, 2016 and December 31, 2015, respectively.

**Foreign Currency Risk Management.** From time to time, we enter into foreign currency forward contracts to protect the value of anticipated foreign currency expenses associated with cash commitments for equipment purchases. These derivative instruments are designated and qualify for cash flow hedge accounting and are adjusted to current market values each reporting period. Both realized and unrealized periodic gains and losses of derivative instruments designated as cash flow hedges are deferred in Accumulated other comprehensive income until depreciation on the underlying equipment commences. Upon commencement, realized gains and losses are recorded in Net income (loss) as an adjustment to depreciation expense as depreciation is recognized on the underlying equipment. Depending on the time to maturity and asset or liability position, the carrying values of cash flow hedges are included in Prepaid expenses and other current assets, Other assets, Other accrued liabilities or Long-term liabilities. We report the effective portion of our cash flow hedges in the same financial statement line item as changes in the fair value of the hedged item. Hedge effectiveness is assessed periodically. Any derivative instrument not designated as a hedge, or so designated but ineffective, is adjusted to market value and recognized in Net income (loss) immediately. See Note 8 for additional information.

**New Accounting Pronouncements.** Accounting Standards Update ("ASU") No. 2014-09, Revenue from Contracts with Customers (Topic 606) ("ASU 2014-09"), was issued in May 2014 and requires an entity to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In August 2015, ASU 2014-09 was amended by ASU No. 2015-14, Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date ("ASU 2015-14"), which defers the effective date of ASU 2014-09 by one year for all entities and permits early adoption on a limited basis. ASU 2014-09 was subsequently amended by three additional pronouncements: (i) ASU No. 2016-10, Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing; (ii) ASU No. 2016-11, Revenue Recognition (Topic 605) and Derivatives and Hedging (Topic 815): Rescission of SEC Guidance Because of Accounting Standards Updates 2014-09 and 2014-16 Pursuant to Staff Announcements at the March 3, 2016 EITF Meeting; and (iii) ASU No. 2016-12, Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients. We expect to adopt ASU 2014-09, including its subsequent amendments discussed above, using the modified retrospective transition approach for the fiscal year ending December 31, 2018 and will continue to assess the impact of the adoption on our consolidated financial statements, including a potential change of certain contracts from point-in-time to over-time recognition; however, based on our

assessments to date, we do not expect the adoption of this ASU, as amended, to have a material impact on our consolidated financial statements.

ASU No. 2015-03, Interest - Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs ("ASU 2015-03"), was issued in April 2015. ASU 2015-03 requires debt issuance costs related to a recognized debt liability to be presented in an entity's balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts, instead of being presented as a deferred charge in the balance sheet. The recognition and measurement guidance for debt issuance costs is not affected by ASU 2015-03. Our retrospective adoption of this ASU in the first quarter of 2016

KAISER ALUMINUM CORPORATION AND SUBSIDIARY COMPANIES  
NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS - UNAUDITED

resulted in a reclassification of \$3.2 million of debt issuance costs related to our 8.25% Senior Notes (as defined in Note 3) from Other assets to Long-term debt as of December 31, 2015.

ASU No. 2015-17, Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes ("ASU 2015-17"), was issued in November 2015. ASU 2015-17 requires that all deferred tax assets and liabilities, along with any related valuation allowance, be classified as non-current on the balance sheet. This ASU does not, however, change the existing requirement that deferred tax liabilities and assets of a tax-paying component of an entity be offset and presented as a single amount. During the first quarter of 2016, we early adopted this ASU on a prospective basis. As such, prior periods were not retrospectively adjusted.

ASU No. 2016-02, Leases (Topic 842): Amendments to the Financial Accounting Standards Board Accounting Standards Codification ("ASU 2016-02"), was issued in February 2016. Under ASU 2016-02, lessees will need to recognize a right-of-use asset and a lease liability for virtually all of their leases (other than leases that meet the definition of a short-term lease). For income statement purposes, a dual model was retained, requiring leases to be classified as either operating or finance. Operating leases will result in straight-line expense (similar to current operating leases) while finance leases will result in a front-loaded expense pattern (similar to current capital leases). ASU 2016-02 becomes effective for us in the first quarter of 2019. Although we are currently assessing the impact, we expect the adoption of this ASU in 2019 to have a material impact on our consolidated financial statements.

ASU No. 2016-09, Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting ("ASU 2016-09"), was issued in March 2016. ASU 2016-09 eliminates additional paid in capital ("APIC") pools and requires excess tax benefits and tax deficiencies to be recorded in the income statement when the awards vest or are settled. The accounting for an employee's use of shares to satisfy the employer's statutory income tax withholding obligation and the accounting for forfeitures is also changing. We early adopted ASU 2016-09 during the first quarter of 2016. See Note 4 and Note 6 for a discussion on the impact of our adoption of ASU 2016-09.

We do not anticipate any material impact on our financial statements upon the adoption of the following accounting pronouncements issued during 2016: (i) ASU No. 2016-01, Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities; (ii) ASU No. 2016-13, Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments; and (iii) ASU No. 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments. There were no material impacts on our consolidated financial statements resulting from our adoption in the first quarter of 2016 of the following accounting pronouncements: (i) ASU No. 2015-05, Intangibles - Goodwill and Other - Internal-Use Software (Subtopic 350-40): Customer's Accounting for Fees Paid in a Cloud Computing Arrangement; (ii) ASU No. 2015-07, Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent); and (iii) ASU No. 2015-15, Interest - Imputation of Interest (Subtopic 835-30) - Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements.

2. Supplemental Balance Sheet Information

September 30, December 31,  
2016 2015  
(In millions of  
dollars)

Cash and Cash Equivalents

|                             |         |         |
|-----------------------------|---------|---------|
| Cash and money market funds | \$ 26.8 | \$ 40.3 |
| Commercial paper            | 46.1    | 32.2    |
| Total                       | \$ 72.9 | \$ 72.5 |



KAISER ALUMINUM CORPORATION AND SUBSIDIARY COMPANIES  
NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS - UNAUDITED

|                                                     | September 30,<br>2016    | December 31,<br>2015 |
|-----------------------------------------------------|--------------------------|----------------------|
|                                                     | (In millions of dollars) |                      |
| Trade Receivables – Net                             |                          |                      |
| Billed trade receivables                            | \$ 142.8                 | \$ 116.8             |
| Unbilled trade receivables                          | 0.2                      | 0.7                  |
| Trade receivables, gross                            | 143.0                    | 117.5                |
| Allowance for doubtful receivables                  | (0.8 )                   | (0.8 )               |
| Trade receivables – net                             | \$ 142.2                 | \$ 116.7             |
| Inventories                                         |                          |                      |
| Finished products                                   | \$ 70.1                  | \$ 79.5              |
| Work-in-process                                     | 73.5                     | 63.6                 |
| Raw materials                                       | 56.0                     | 53.4                 |
| Operating supplies and repair and maintenance parts | 24.0                     | 23.1                 |
| Total                                               | \$ 223.6                 | \$ 219.6             |
| Prepaid Expenses and Other Current Assets           |                          |                      |
| Current derivative assets – Notes 8 and 9           | \$ 4.6                   | \$ 1.5               |
| Current deferred tax assets – Note 1                | —                        | 49.6                 |
| Prepaid taxes                                       | 1.1                      | —                    |
| Prepaid insurance                                   | 1.5                      | 1.9                  |
| Short-term restricted cash                          | 0.3                      | 0.3                  |
| Other                                               | 3.4                      | 3.4                  |
| Total                                               | \$ 10.9                  | \$ 56.7              |
| Property, Plant and Equipment – Net                 |                          |                      |
| Land and improvements                               | \$ 22.7                  | \$ 22.7              |
| Buildings and leasehold improvements                | 84.8                     | 71.8                 |
| Machinery and equipment                             | 585.2                    | 549.0                |
| Construction in progress                            | 47.3                     | 48.5                 |
| Property, plant and equipment – gross               | 740.0                    | 692.0                |
| Accumulated depreciation                            | (221.7 )                 | (196.9 )             |
| Assets held for sale                                | 0.3                      | 0.3                  |
| Property, plant and equipment – net                 | \$ 518.6                 | \$ 495.4             |
| Other Assets                                        |                          |                      |
| Restricted cash                                     | \$ 11.7                  | \$ 10.9              |
| Debt issuance costs on Revolving Credit Facility    | 1.1                      | 1.3                  |
| Deferred compensation plan assets                   | 8.3                      | 7.3                  |
| Derivative assets – Notes 8 and 9                   | 1.0                      | 0.1                  |
| Total                                               | \$ 22.1                  | \$ 19.6              |

KAISER ALUMINUM CORPORATION AND SUBSIDIARY COMPANIES  
NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS - UNAUDITED

|                                                                     | September 30,<br>2016       | December 31,<br>2015 |
|---------------------------------------------------------------------|-----------------------------|----------------------|
|                                                                     | (In millions of<br>dollars) |                      |
| <b>Other Accrued Liabilities</b>                                    |                             |                      |
| Current derivative liabilities – Notes 8 and 9                      | \$ 2.7                      | \$ 14.1              |
| Uncleared cash disbursements                                        | 4.5                         | 8.0                  |
| Accrued income taxes and taxes payable                              | 7.8                         | 3.1                  |
| Accrued annual contribution to VEBAs                                | —                           | 19.6                 |
| Accrued contingent contribution to Union VEBA – Note 5              | 17.1                        | —                    |
| Short-term environmental accrual – Note 7                           | 1.4                         | 1.6                  |
| Accrued interest                                                    | 8.6                         | 1.5                  |
| Short-term deferred revenue                                         | 0.2                         | 1.2                  |
| Other                                                               | 4.4                         | 3.6                  |
| <b>Total</b>                                                        | <b>\$ 46.7</b>              | <b>\$ 52.7</b>       |
| <b>Long-Term Liabilities</b>                                        |                             |                      |
| Derivative liabilities – Notes 8 and 9                              | \$ 0.5                      | \$ 2.1               |
| Income tax liabilities                                              | 0.9                         | 0.7                  |
| Workers' compensation accruals                                      | 23.9                        | 21.7                 |
| Long-term environmental accrual – Note 7                            | 16.1                        | 17.0                 |
| Long-term asset retirement obligations                              | 5.1                         | 4.8                  |
| Deferred compensation liability                                     | 8.3                         | 7.7                  |
| Long-term deferred revenue                                          | 0.2                         | 0.3                  |
| Long-term capital leases                                            | —                           | 0.1                  |
| Long-term portion of contingent contribution to Union VEBA – Note 5 | 12.8                        | 29.9                 |
| Other long-term liabilities                                         | 3.4                         | 3.2                  |
| <b>Total</b>                                                        | <b>\$ 71.2</b>              | <b>\$ 87.5</b>       |

### 3. Debt and Credit Facility

#### Senior Notes

5.875% Senior Notes. In May 2016, we issued \$375.0 million principal amount of 5.875% unsecured senior notes due May 15, 2024 ("5.875% Senior Notes") at 100% of the principal amount. The unamortized amount of debt issuance costs as of September 30, 2016 was \$6.5 million. Interest expense, including amortization of debt issuance costs, relating to the 5.875% Senior Notes was \$5.7 million and \$8.8 million for the quarter and nine months ended September 30, 2016, respectively. A portion of the interest relating to the 5.875% Senior Notes was capitalized as construction in progress. The effective interest rate of the 5.875% Senior Notes is approximately 6.1% per annum, taking into account the amortization of debt issuance costs.

The 5.875% Senior Notes are unsecured obligations and are guaranteed by certain of our domestic subsidiaries that own virtually all of our operating assets and through which we conduct the vast majority of our business. See Note 15 for condensed guarantor and non-guarantor financial information.

The indenture governing the 5.875% Senior Notes places limitations on our and certain of our subsidiaries' ability to, among other things, incur liens, consolidate, merge or sell all or substantially all of our and certain of our subsidiaries' assets, incur or guarantee additional indebtedness, enter into transactions with affiliates and to make "restricted payments" (as defined in the indenture to include certain loans, investments, dividend payments, share repurchases and prepayments, redemptions or repurchases of certain indebtedness). Certain types and amounts of restricted payments are allowed by various provisions of the indenture. In particular, the indenture provisions permit us to make restricted payments in any amount if, after giving effect to



KAISER ALUMINUM CORPORATION AND SUBSIDIARY COMPANIES  
NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS - UNAUDITED

such restricted payments, our "consolidated net indebtedness" as a ratio of "EBITDA" (each term as defined in the indenture) is less than 2.75:1.00.

We may redeem the 5.875% Senior Notes at our option in whole or part at any time on or after May 15, 2019 at a redemption price of 104.406% of the principal amount, declining to 102.938%, 101.469% and 100% of the principal amount on or after May 15, 2020, May 15, 2021 and May 15, 2022, respectively, in each case plus any accrued and unpaid interest. At any time prior to May 15, 2019, we may also redeem some or all of the 5.875% Senior Notes at a redemption price equal to 100% of the principal amount, together with any accrued and unpaid interest, plus a "make-whole premium."

Holders of the 5.875% Senior Notes have the right to require us to repurchase the 5.875% Senior Notes at a price equal to 101% of the principal amount plus any accrued and unpaid interest following a change of control. A change of control includes: (i) certain ownership changes; (ii) certain recapitalizations, mergers and dispositions; (iii) certain changes in the composition of our Board of Directors; and (iv) shareholders' approval of any plan or proposal for the liquidation or dissolution of us. We may also be required to offer to repurchase the 5.875% Senior Notes at 100% of the principal amount, plus any accrued and unpaid interest, with the proceeds of certain asset sales.

During the quarter ended September 30, 2016, we filed an exchange offer registration statement with respect to the 5.875% Senior Notes. Once the registration statement was declared effective by the Securities and Exchange Commission, we offered to holders of the 5.875% Senior Notes to exchange their original notes for notes that are freely transferable pursuant to the registration statement. All of the outstanding original notes were validly tendered for registered notes during the quarter ended September 30, 2016.

The fair value of the outstanding 5.875% Senior Notes at September 30, 2016 was approximately \$392.3 million. See Note 9 for information relating to the estimated fair value of the 5.875% Senior Notes.

8.25% Senior Notes. In May 2012, we issued \$225.0 million principal amount of 8.25% unsecured senior notes due June 1, 2020 ("8.25% Senior Notes"). During 2015, we repurchased \$27.2 million aggregate principal amount of our 8.25% Senior Notes for 107.5% of the principal amount, and on June 1, 2016 we redeemed in full the remaining \$197.8 million principal balance of our 8.25% Senior Notes at a redemption price of 104.125% of the principal amount. Upon the redemption of the 8.25% Senior Notes, our cash outflow for principal, redemption premium and accrued interest totaled \$214.2 million. The \$8.2 million redemption premium and \$2.9 million write-off of unamortized debt issuance costs were included in Other expense, net on our Statements of Consolidated Income (Loss) (see Note 13 for details). Interest expense, including amortization of debt issuance costs, relating to the 8.25% Senior Notes was \$4.8 million for the quarter ended September 30, 2015. For the nine months ended September 30, 2016 and September 30, 2015, interest expense, including amortization of debt issuance costs, relating to the 8.25% Senior Notes was \$7.1 million and \$14.5 million, respectively. A portion of the interest relating to the 8.25% Senior Notes was capitalized as construction in progress.

The fair value of the outstanding 8.25% Senior Notes at December 31, 2015 was approximately \$207.3 million. See Note 9 for information relating to the estimated fair value of the 8.25% Senior Notes.

#### Revolving Credit Facility

Our credit agreement with JPMorgan Chase Bank, N.A., as administrative agent, and the other financial institutions party thereto ("Revolving Credit Facility") provides us with a \$300.0 million funding commitment through December 2020. We had \$287.6 million of borrowing availability under the Revolving Credit Facility at September 30, 2016, based on the borrowing base determination then in effect. At September 30, 2016, there were no borrowings under the Revolving Credit Facility and \$7.3 million was being used to support outstanding letters of credit, leaving \$280.3 million of net borrowing availability. The interest rate applicable to any overnight borrowings under the Revolving Credit Facility would have been 3.75% at September 30, 2016.

KAISER ALUMINUM CORPORATION AND SUBSIDIARY COMPANIES  
NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS - UNAUDITED

4. Income Tax Matters

The provision for (benefit from) incomes taxes for each period presented consisted of the following (in millions of dollars):

|          | Quarter Ended |        | Nine Months Ended |           |
|----------|---------------|--------|-------------------|-----------|
|          | September 30, |        | September 30,     |           |
|          | 2016          | 2015   | 2016              | 2015      |
| Domestic | \$9.1         | \$13.4 | \$39.5            | \$(149.0) |
| Foreign  | 0.3           | (0.8)  | 0.7               | (2.2)     |
| Total    | \$9.4         | \$12.6 | \$40.2            | \$(151.2) |

The income tax provision for the quarters ended September 30, 2016 and September 30, 2015 was \$9.4 million and \$12.6 million, reflecting an effective tax rate of 38.7% and 36.3%, respectively. There was no material difference between the effective tax rates and the projected blended statutory tax rates for the quarters ended September 30, 2016 and September 30, 2015.

The income tax provision (benefit) for the nine months ended September 30, 2016 and September 30, 2015 was \$40.2 million and \$(151.2) million, reflecting an effective tax rate of 37.5% and 37.7%, respectively. There was no material difference between the effective tax rate and the projected blended statutory tax rate for the nine months ended September 30, 2016 and September 30, 2015.

The \$151.2 million income tax benefit for the nine months ended September 30, 2015 included a \$184.4 million tax benefit that was recorded as a result of removing the Union VEBA net assets and related deferred tax liabilities from our consolidated financial statements. See Note 5 for additional information regarding employee benefits.

Our gross unrecognized benefits relating to uncertain tax positions were \$1.8 million and \$1.7 million at September 30, 2016 and December 31, 2015, respectively, of which, \$0.7 million and \$0.6 million would be recorded through our income tax provision and thus impact the effective tax rate at September 30, 2016 and December 31, 2015, respectively, if the gross unrecognized tax benefits were to be recognized.

We do not expect our gross unrecognized tax benefits to significantly change within the next 12 months.

ASU No. 2016-09, Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting, was issued and early adopted in March 2016. ASU 2016-09 eliminates additional paid in capital ("APIC") pools and requires excess tax benefits and tax deficiencies to be recorded in the income statement when the awards vest or are settled. In addition, modified retrospective adoption of ASC 2016-09 eliminates the requirement that excess tax benefits be realized (i.e., through a reduction in income taxes payable) before we can recognize them and therefore, we have recorded a cumulative-effect adjustment of \$0.7 million through Retained earnings and Deferred tax assets – net during the first quarter of 2016 to record excess tax benefits not previously recognized. Tax Asset Protection Rights Agreement. On April 7, 2016, our Board of Directors adopted a tax asset protection rights plan ("Tax Asset Rights Plan"), designed to preserve our ability to utilize our net operating loss ("NOL") carryforwards and other significant tax attributes (collectively, "Tax Benefits") to offset future taxable income in the United States, and declared a dividend of one preferred share purchase right ("Right") for each outstanding share of our common stock. Our stockholders approved the Tax Asset Rights Plan at our 2016 Annual Meeting of Stockholders on May 26, 2016.

In general terms, the Tax Asset Rights Plan imposes a significant penalty upon any person or group that acquires beneficial ownership (defined generally as direct or constructive ownership as determined under Section 382 of the Code) of 4.99% or more of the outstanding Common Stock without the prior approval of our Board of Directors. Any Rights held by a person or group that acquires a percentage of Common Stock in excess of that threshold ("Acquiring Person") are void and may not be exercised.

If the Rights become exercisable, each Right would allow its holder to purchase from us one one-hundredth of a share of our Series A Junior Participating Preferred Stock ("Series A Preferred Stock") for a purchase price of \$400.00.

Each fractional share of Series A Preferred Stock would give the stockholder approximately the same dividend, voting

and liquidation rights as

13

---

KAISER ALUMINUM CORPORATION AND SUBSIDIARY COMPANIES  
NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS - UNAUDITED

does one share of our common stock. Prior to exercise, however, a Right does not give its holder any dividend, voting or liquidation rights.

The Rights will not be exercisable until the earlier of: (i) 10 days after a public announcement by us that a person or group has become an Acquiring Person and (ii) 10 business days (or a later date determined by our Board of Directors) after a person or group begins a tender or exchange offer that, if completed, would result in that person or group becoming an Acquiring Person.

Until the date that the Rights become exercisable ("Distribution Date"), our common stock certificates will also evidence the Rights and will contain a notation to that effect. Any transfer of shares of our common stock prior to the Distribution Date will constitute a transfer of the associated Rights. After the Distribution Date, the Rights will separate from our common stock and be evidenced by Right certificates, which we will mail to all holders of Rights that have not become void.

After the Distribution Date, if a person or group already is or becomes an Acquiring Person, all holders of Rights, except the Acquiring Person, may exercise their Rights upon payment of the purchase price to purchase shares of our common stock (or other securities or assets as determined by the Board) with a market value of two times the purchase price ("Flip-in Event"). After the Distribution Date, if a Flip-in Event has already occurred and we are acquired in a merger or similar transaction, all holders of Rights except the Acquiring Person may exercise their Rights upon payment of the purchase price, to purchase shares of the acquiring or other appropriate entity with a market value of two times the purchase price of the Rights. Rights may be exercised to purchase Series A Preferred Stock only after the Distribution Date occurs and prior to the occurrence of a Flip-in Event as described above. A Distribution Date resulting from the commencement of a tender offer or exchange offer as described in (ii) above could precede the occurrence of a Flip-in Event, in which case the Rights could be exercised to purchase Series A Preferred Stock. A Distribution Date resulting from any occurrence described in (i) above would necessarily follow the occurrence of a Flip-in Event, in which case the Rights could be exercised to purchase shares of Common Stock (or other securities or assets) as described above.

The Rights will expire on the earliest of: (i) April 7, 2019 or such earlier date as of which our Board of Directors determines that the Tax Assets Rights Plan is no longer necessary for the preservation of our Tax Benefits; (ii) the time at which the Rights are redeemed; (iii) the time at which the Rights are exchanged; (iv) the effective time of the repeal of Section 382 of the Internal Revenue Code if the Board determines that the Tax Assets Rights Plan is no longer necessary for the preservation of our Tax Benefits; and (v) the first day of a taxable year to which our Board of Directors determines that no Tax Benefits may be carried forward.

#### 5. Employee Benefits

**Pension and Similar Benefit Plans.** We provide contributions to: (i) multi-employer pension plans sponsored by the United Steel, Paper and Forestry, Rubber, Manufacturing, Energy, Allied Industrial and Service Workers International Union AFL-CIO, CLC ("USW"), the International Association of Machinists and certain other unions at certain of our production facilities; (ii) defined contribution 401(k) savings plans for salaried employees and certain hourly employees; (iii) a defined benefit plan for salaried employees at our London, Ontario (Canada) facility; and (iv) a non-qualified, unfunded, unsecured plan of deferred compensation for key employees who would otherwise suffer a loss of benefits under our defined contribution plan.

**VEBA Postretirement Obligations.** Certain eligible retirees participate in a voluntary employees' beneficiary association ("VEBA") that provides healthcare and medical cost reimbursement benefits for eligible retirees represented by certain unions and their surviving spouse and eligible dependents ("Union VEBA") or a VEBA that provides healthcare related benefits for certain other eligible retirees and their surviving spouse and eligible dependents ("Salaried VEBA" and, together with the Union VEBA, "VEBAs"). The Union VEBA covers certain qualifying bargaining unit retirees and future retirees. The Salaried VEBA covers certain retirees who retired prior to the 2004 termination of the prior plan and employees who were hired prior to February 2002 and have subsequently retired or will retire with the requisite age and service.

Our primary financial obligation to the VEBAs is to make an annual variable cash contribution based on the contribution formula discussed in Note 6 of Notes to Consolidated Financial Statements included in our Annual Report on Form 10-K for the year ended December 31, 2015. The variable cash contribution obligation to the Union VEBA expires in September 2017, while the obligation to the Salaried VEBA has no express termination date. The variable contribution for 2015 was \$19.5 million (comprised of \$16.7 million to the Union VEBA and \$2.8 million to the Salaried VEBA). These amounts were paid during the first quarter of 2016. We account for the Salaried VEBA as a defined benefit plan in our financial statements.

KAISER ALUMINUM CORPORATION AND SUBSIDIARY COMPANIES  
NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS - UNAUDITED

In the quarter ended March 31, 2015, after determining that our obligation to make annual variable contributions to the Union VEBA would expire as of September 2017, we terminated defined benefit plan accounting for the Union VEBA. This resulted in a non-cash loss of \$307.8 million, net of a \$184.4 million tax benefit, as we removed the Union VEBA net assets and related deferred tax liabilities from our Consolidated Balance Sheet. We have recorded the estimated liability for the remaining variable cash contributions in Other accrued liabilities and Long-term liabilities (see Note 2). Our aggregate estimate of \$29.9 million for the amounts due for the 2016 variable cash contribution (to be paid in 2017) and the variable contribution for the first nine months of 2017 (to be paid in 2018) is subject to change based on our actual cash flow for each respective calendar year. We review the estimated liability quarterly and reflect any changes in our Operating income (loss).

Components of Net Periodic Benefit Cost. Our results of operations included the following impacts associated with the Canadian defined benefit plan and the Salaried VEBA: (i) charges for service rendered by employees; (ii) a charge for accretion of interest; (iii) a benefit for the return on plan assets; and (iv) amortization of net gains or losses on assets, prior service costs associated with plan amendments and actuarial differences. Net periodic benefit cost related to the Canadian defined benefit plan was not material for the quarters and nine months ended September 30, 2016 and September 30, 2015. The following table presents the components of net periodic benefit cost for the Salaried VEBA and charges relating to all other employee benefit plans for the periods presented (in millions of dollars):

|                                                                          | Quarter Ended |         | Nine Months Ended |         |
|--------------------------------------------------------------------------|---------------|---------|-------------------|---------|
|                                                                          | September 30, |         | September 30,     |         |
|                                                                          | 2016          | 2015    | 2016              | 2015    |
| Salaried VEBA:                                                           |               |         |                   |         |
| Service cost <sup>1</sup>                                                | \$—           | \$—     | \$—               | \$—     |
| Interest cost                                                            | 0.7           | 0.7     | 2.2               | 2.1     |
| Expected return on plan assets                                           | (1.0)         | (1.1)   | (3.0)             | (3.3)   |
| Amortization of prior service cost                                       | 1.0           | 0.7     | 3.0               | 2.2     |
| Amortization of net actuarial loss                                       | 0.1           | 0.3     | 0.3               | 0.8     |
| Total net periodic postretirement benefit cost relating to Salaried VEBA | 0.8           | 0.6     | 2.5               | 1.8     |
| (Gain) loss on removal of Union VEBA net assets                          | —             | (2.9)   | (0.1)             | 490.9   |
| Total VEBAs                                                              | 0.8           | (2.3)   | 2.4               | 492.7   |
| Other employee benefit plans:                                            |               |         |                   |         |
| Deferred compensation plan                                               | 0.5           | (0.4)   | 0.8               | 0.1     |
| Defined contribution plans                                               | 1.7           | 1.4     | 7.4               | 7.1     |
| Multiemployer pension plans                                              | 1.2           | 1.1     | 3.5               | 2.9     |
| Total other employee benefit plans                                       | \$3.4         | \$2.1   | \$11.7            | \$10.1  |
| Total                                                                    | \$4.2         | \$(0.2) | \$14.1            | \$502.8 |

<sup>1</sup> The service cost was insignificant for all periods presented.

The following table presents the allocation of the charges detailed above, by reportable segment and business unit (in millions of dollars – see Note 11):

|                     | Quarter Ended |         | Nine Months Ended |          |
|---------------------|---------------|---------|-------------------|----------|
|                     | September 30, |         | September 30,     |          |
|                     | 2016          | 2015    | 2016              | 2015     |
| Fabricated Products | \$ 2.9        | \$ 2.4  | \$ 10.4           | \$ 9.4   |
| All Other           | 1.3           | (2.6)   | 3.7               | 493.4    |
| Total               | \$ 4.2        | \$(0.2) | \$ 14.1           | \$ 502.8 |



KAISER ALUMINUM CORPORATION AND SUBSIDIARY COMPANIES  
NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS - UNAUDITED

For all periods presented, Net periodic postretirement benefit cost relating to Salaried VEBA and the (Gain) loss on removal of Union VEBA net assets were included within All Other. Further, substantially all of the Fabricated Products segment's employee benefits related charges are in Cost of products sold, excluding depreciation and amortization and other items with the remaining balance in Selling, general, administrative, research and development ("SG&A and R&D").

6. Employee Incentive Plans

Short-Term Incentive Plans ("STI Plans")

We have annual short-term incentive compensation plans for senior management and certain other employees payable at our election in cash, shares of common stock, or a combination of cash and shares of common stock. Amounts earned under STI Plans are based on our adjusted earnings before interest, taxes, depreciation and amortization ("Adjusted EBITDA"), modified for certain safety, quality, delivery, cost and individual performance factors. The Adjusted EBITDA targets are determined based on the economic value added ("EVA") of our Fabricated Products business. Most of our production facilities have similar programs for both hourly and salaried employees. As of September 30, 2016, we had a liability of \$18.8 million recorded within Accrued salaries, wages and related expenses for estimated probable future payments relating to the nine month performance period of our 2016 STI Plans.

Long-Term Incentive Programs ("LTI Programs")

General. Prior to May 26, 2016, executive officers and other key employees of the Company, as well as non-employee directors of the Company, were eligible to participate in the Kaiser Aluminum Corporation Amended and Restated 2006 Equity and Performance Incentive Plan ("2006 Plan"). Subject to certain adjustments that may be required from time to time to prevent dilution or enlargement of the rights of participants under the 2006 Plan, a total of 2,722,222 common shares were authorized for issuance under the 2006 Plan.

On May 26, 2016, our stockholders approved the Kaiser Aluminum Corporation 2016 Equity and Incentive Compensation Plan ("2016 Plan"), which replaced and succeeded in its entirety the 2006 Plan. No grants will be made under the 2006 Plan on or after May 26, 2016, but outstanding awards granted under the 2006 Plan will continue unaffected.

Effective May 26, 2016, executive officers and other key employees of the Company, as well as non-employee directors of the Company and certain persons who provide services to us that are equivalent to those typically provided by an employee, are eligible to participate in the 2016 Plan. Subject to certain adjustments that may be required from time to time to prevent dilution or enlargement of the rights of participants under the 2016 Plan, the number of shares of common stock available for awards is limited to 1,045,000 shares, minus, (i) one share for every one share subject to an award granted under the 2006 Plan between December 31, 2015 and the effective date of the 2016 Plan, plus (ii) any shares of our common stock that become available under the 2016 Plan as a result of forfeiture, cancellation, expiration, or cash settlement of awards. At September 30, 2016, 924,402 shares were available for awards under the 2016 Plan.

Non-vested Common Shares and Restricted Stock Units. We grant non-vested common shares and restricted stock units to our non-employee directors, executive officers and other key employees. The restricted stock units have rights similar to the rights of non-vested common shares and each restricted stock unit that becomes vested entitles the recipient to receive one common share. For both non-vested common shares and restricted stock units, the service period is generally one year for non-employee directors and three years for executive officers and other key employees.

In addition to non-vested common shares and restricted stock units, we grant performance shares to executive officers and other key employees. Each performance share that becomes vested entitles the recipient to receive one common share. Performance shares granted in 2014 and 2015 ("TSR-Based Performance Shares") are subject to performance conditions pertaining to our total shareholder return ("TSR") over a three-year performance period compared to the TSR of a specified group of peer companies. The number of TSR-Based Performance Shares that will ultimately vest under both the 2014-2016 and 2015-2017 LTI Programs and result in the issuance of common shares ranges between 0% to 200% of the target number of underlying common shares (constituting approximately one-half of the maximum

payout) and depends on the percentile ranking of our TSR compared to the group of peer companies. Performance shares granted in 2016 consist of TSR-Based Performance Shares and performance shares subject to performance requirements ("CP-Based Performance Shares") pertaining to our cost performance as set forth in the 2016-2018 LTI Program. The number of CP-Based Performance Shares that will ultimately vest and result in the issuance of common shares ranges between 0% to 200% of the target number of underlying

KAISER ALUMINUM CORPORATION AND SUBSIDIARY COMPANIES  
NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS - UNAUDITED

common shares (constituting approximately one-half of the maximum payout) and depends on the average annual cost performance achieved for the specified three-year performance period.

During the first quarter of 2016, performance shares granted in 2013 ("EVA-Based Performance Shares") under the 2013-2015 LTI Program became fully vested (see "Summary of Activity" below). The EVA-Based Performance Shares were subject to performance conditions pertaining to our EVA performance, measured over the three-year performance period. The number of EVA-Based Performance Shares that vested and resulted in the issuance of common shares was dependent on the average annual EVA achieved for the specified three-year performance period. The vesting of performance shares resulting in the issuance and delivery of common shares, if any, under the 2014-2016, 2015-2017 and 2016-2018 LTI Programs will occur in 2017, 2018 and 2019, respectively.

ASU No. 2016-09, Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting, was issued and early adopted in March 2016. ASU 2016-09 eliminates the requirement to estimate and apply a forfeiture rate to reduce stock compensation expense during the vesting period and, instead, account for forfeitures as they occur. ASU 2016-09 requires that this change be adopted using the modified retrospective approach. As such, we recorded a cumulative-effect adjustment of \$0.8 million during the first quarter of 2016 to reduce our December 31, 2015 Retained earnings and increase our December 31, 2015 Additional paid in capital balances. Additionally, ASU 2016-09 addresses the presentation of excess tax benefits and employee taxes paid on the statement of cash flows. We are now required to present excess tax benefits as an operating activity (combined with other income tax cash flows) on the statement of cash flows rather than as a financing activity, and we adopted this change prospectively during the first quarter of 2016. ASU 2016-09 also requires the presentation of employee taxes as a financing activity on the statement of cash flows, which is where we had previously classified these items. This change, therefore, did not impact our financial statements.

Non-Cash Compensation Expense. Non-cash compensation expense relating to all awards under the 2006 Plan and the 2016 Plan is included in SG&A and R&D. Non-cash compensation expense by type of award under LTI Programs was as follows for each period presented (in millions of dollars):

|                                                     | Quarter Ended      |                    | Nine Months Ended  |                    |
|-----------------------------------------------------|--------------------|--------------------|--------------------|--------------------|
|                                                     | September 30, 2016 | September 30, 2015 | September 30, 2016 | September 30, 2015 |
| Non-vested common shares and restricted stock units | \$ 1.2             | \$ 1.1             | \$ 3.5             | \$ 3.3             |
| TSR-Based Performance Shares                        | 1.5                | 1.0                | 4.0                | 2.7                |
| CP-Based Performance Shares                         | 0.4                | —                  | 0.9                | —                  |
| EVA-Based Performance Shares                        | —                  | 0.1                | 0.3                | 0.8                |
| Total non-cash compensation expense                 | \$ 3.1             | \$ 2.2             | \$ 8.7             | \$ 6.8             |

The following table presents the allocation of the charges detailed above, by segment (in millions of dollars):

|                                     | Quarter Ended      |                    | Nine Months Ended  |                    |
|-------------------------------------|--------------------|--------------------|--------------------|--------------------|
|                                     | September 30, 2016 | September 30, 2015 | September 30, 2016 | September 30, 2015 |
| Fabricated Products                 | \$ 1.2             | \$ 0.8             | \$ 3.1             | \$ 2.4             |
| All Other                           | 1.9                | 1.4                | 5.6                | 4.4                |
| Total non-cash compensation expense | \$ 3.1             | \$ 2.2             | \$ 8.7             | \$ 6.8             |

KAISER ALUMINUM CORPORATION AND SUBSIDIARY COMPANIES  
NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS - UNAUDITED

Unrecognized Gross Compensation Cost Data. The following table presents unrecognized gross compensation cost data by type of award as of September 30, 2016:

|                                                     | Unrecognized gross compensation costs (in millions of dollars) |     | Expected period (in years) over which the remaining gross compensation costs will be recognized |  |
|-----------------------------------------------------|----------------------------------------------------------------|-----|-------------------------------------------------------------------------------------------------|--|
| Non-vested common shares and restricted stock units | \$                                                             | 7.0 | 1.8                                                                                             |  |
| TSR-Based Performance Shares                        | \$                                                             | 7.7 | 1.8                                                                                             |  |
| CP-Based Performance Shares                         | \$                                                             | 3.8 | 2.4                                                                                             |  |

Summary of Activity. A summary of the activity with respect to non-vested common shares, restricted stock units, TSR-Based Performance Shares, CP-Based Performance Shares and EVA-Based Performance Shares for the nine months ended September 30, 2016 is as follows:

|                                   | Non-Vested Common Shares |                                                  | Restricted Stock Units |                                                 | TSR-Based Performance Shares |                                                  | CP-Based Performance Shares |                                                  | EVA-Based Performance Shares |                                                  |
|-----------------------------------|--------------------------|--------------------------------------------------|------------------------|-------------------------------------------------|------------------------------|--------------------------------------------------|-----------------------------|--------------------------------------------------|------------------------------|--------------------------------------------------|
|                                   | Shares                   | Weighted-Average Grant-Date Fair Value per Share | Units                  | Weighted-Average Grant-Date Fair Value per Unit | Shares                       | Weighted-Average Grant-Date Fair Value per Share | Shares                      | Weighted-Average Grant-Date Fair Value per Share | Shares                       | Weighted-Average Grant-Date Fair Value per Share |
| Outstanding at December 31, 2015  | 156,553                  | \$ 67.20                                         | 5,521                  | \$ 66.64                                        | 299,877                      | \$ 89.43                                         | —                           | \$ —                                             | 155,105                      | \$ 57.76                                         |
| Granted <sup>1</sup>              | 9,702                    | 86.11                                            | 57,205                 | 75.57                                           | 95,974                       | 93.02                                            | 63,983                      | 80.46                                            | —                            | —                                                |
| Vested                            | (49,737 )                | 65.54                                            | (2,097 )               | 63.02                                           | —                            | —                                                | —                           | —                                                | (49,611 )                    | 57.76                                            |
| Forfeited <sup>1</sup>            | (379 )                   | 69.18                                            | (588 )                 | 74.49                                           | (1,115 )                     | 90.06                                            | (164 )                      | 80.46                                            | —                            | —                                                |
| Canceled <sup>1</sup>             | —                        | —                                                | —                      | —                                               | —                            | —                                                | —                           | —                                                | (105,494 )                   | 57.76                                            |
| Outstanding at September 30, 2016 | 116,139                  | \$ 69.49                                         | 60,041                 | \$ 75.20                                        | 394,736                      | \$ 90.30                                         | 63,819                      | \$ 80.46                                         | —                            | \$ —                                             |

For TSR-Based Performance Shares, CP-Based Performance Shares and EVA-Based Performance Shares, the number of shares granted and forfeited are presented at their maximum payout; and the number of shares canceled includes the number of shares that did not vest due to EVA performance results falling below those required for maximum payout. Non-Vested Common Shares granted in 2016 were granted under the 2016 Plan.

The weighted-average grant-date fair value per share for shares granted by type of award was as follows for each period presented:

|                              | Quarter Ended      |                    | Nine Months Ended  |                    |
|------------------------------|--------------------|--------------------|--------------------|--------------------|
|                              | September 30, 2016 | September 30, 2015 | September 30, 2016 | September 30, 2015 |
| Non-vested common shares     | \$ —               | \$ —               | \$86.11            | \$72.09            |
| Restricted stock units       | \$ —               | \$ —               | \$75.57            | \$69.83            |
| TSR-Based Performance Shares | \$ —               | \$ —               | \$93.02            | \$95.68            |

CP-Based Performance Shares \$ — \$ —\$80.46 \$—

Stock Options. As of December 31, 2015, we had 16,645 fully-vested outstanding stock options exercisable to purchase common shares at \$80.01 per share and having a remaining contractual life of 15 months. During the nine months ended September 30, 2016, 12,768 options were exercised and no options were granted or forfeited, resulting in 3,877 fully-vested stock options outstanding as of September 30, 2016 with a remaining contractual life of six months.

KAISER ALUMINUM CORPORATION AND SUBSIDIARY COMPANIES  
NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS - UNAUDITED

Under the 2006 Plan and 2016 Plan, participants may elect to have us withhold common shares to satisfy minimum statutory tax withholding obligations arising in connection with the exercise of stock options and vesting of non-vested shares, restricted stock units and performance shares. We cancel any such shares withheld on the applicable vesting dates or earlier dates when service requirements are satisfied, which correspond to the times at which income to the employee is recognized. When we withhold these common shares, we are required to remit to the appropriate taxing authorities the fair value of the shares withheld as of the vesting date. During the nine months ended September 30, 2016 and September 30, 2015, 35,498 and 35,081 common shares, respectively, were withheld and canceled for this purpose. The withholding of common shares by us could be deemed a purchase of the common shares.

7. Commitments and Contingencies

**Commitments.** We have a variety of financial commitments, including purchase agreements, forward foreign exchange and forward sales contracts, indebtedness and letters of credit (see Note 3 and Note 8).

There were no material changes to our scheduled minimum rental commitments during the nine months ended September 30, 2016. During the nine months ended September 30, 2016, our contractual obligations relating to firm commitments for energy purchases increased by \$7.8 million, \$5.9 million, \$0.9 million and \$0.7 million for purchases to be made in 2018, 2019, 2020 and thereafter, respectively.

**Environmental Contingencies.** We are subject to a number of environmental laws and regulations, to potential fines or penalties assessed for alleged breaches of such laws and regulations and to potential claims based upon such laws and regulations.

We have established procedures for regularly evaluating environmental loss contingencies. Our environmental accruals represent our undiscounted estimate of costs reasonably expected to be incurred based on presently enacted laws and regulations, existing requirements, currently available facts, existing technology and our assessment of the likely remediation actions to be taken.

In 2012, we submitted a final feasibility study to the Washington State Department of Ecology ("Washington State Ecology") that included recommendations for remediation alternatives primarily to address the historical use of oils containing polychlorinated biphenyls ("PCBs") at our Spokane, Washington ("Trentwood") facility. We also signed an amended work order in 2012 with Washington State Ecology allowing certain remediation activities to begin, including the initiation of a treatability study in regards to proposed PCB remediation methods. We began implementation of certain approved sections of the work plan in 2013 and throughout 2014, completing a number of these sections in 2014 and receiving approval from Washington State Ecology on completed sections. In cooperation with Washington State Ecology, in 2015 we constructed a pilot test treatment facility to determine the treatability and evaluate the feasibility of removing PCBs from groundwater under the Trentwood facility. We initiated and began operating the treatment test facility in the first half of 2016. As the success of the new methodology cannot be reasonably determined at this time, it is possible that we may need to make upward adjustments to our related accruals as facts and cost estimates regarding the groundwater treatment method and the operation of the treatment facility become available.

During 2013, at the request of the Ohio Environmental Protection Agency ("OEPA"), we initiated an investigational study of the Newark, Ohio ("Newark") facility related to historical on-site waste disposal. Since 2014, we completed a number of preliminary steps in the preparation of completing the final risk assessment and feasibility study, both of which are subject to review and approval by the OEPA. As work continues and progresses to a final risk assessment and feasibility study, we will establish and update estimates for probable and estimable remediation, if any. The actual and final cost for remediation will not be fully determinable until a final feasibility study is submitted and accepted by the OEPA and work plans are prepared, which is expected to occur in the next 12 months.

At September 30, 2016, our environmental accrual of \$17.5 million represented our estimate of the incremental remediation cost based on: (i) proposed alternatives in the final feasibility study related to the Trentwood facility; (ii) currently available facts with respect to our Newark facility; and (iii) facts related to certain other locations owned or formerly owned by us. In accordance with approved and proposed remediation action plans, we expect that the

implementation and ongoing monitoring could occur over a period of 30 or more years.

As additional facts are developed, feasibility studies are completed, draft remediation plans are modified, necessary regulatory approvals for the implementation of remediation are obtained, alternative technologies are developed, and/or other

KAISER ALUMINUM CORPORATION AND SUBSIDIARY COMPANIES  
NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS - UNAUDITED

factors change, there may be revisions to management's estimates and actual costs may exceed the current environmental accruals. We believe at this time that it is reasonably possible that undiscounted costs associated with these environmental matters may exceed current accruals by amounts that could be, in the aggregate, up to an estimated \$12.3 million over the remediation period. We reduced the amount by which the reasonably possible amount exceeded the accrued amount from \$24.7 million to \$12.3 million during the quarter ended September 30, 2016 following a review of remediation work completed at our Trentwood facility and accepted by Washington State Ecology. It is reasonably possible that our recorded estimate will change in the next 12 months.

**Other Contingencies.** We are party to various lawsuits, claims, investigations and administrative proceedings that arise in connection with past and current operations. We evaluate such matters on a case-by-case basis, and our policy is to vigorously contest any such claims we believe are without merit. We accrue for a legal liability when it is both probable that a liability has been incurred and the amount of the loss is material and reasonably estimable. Quarterly, in addition to when changes in facts and circumstances require it, we review and adjust these accruals to reflect the impacts of negotiations, settlements, rulings, advice of legal counsel and other information and events pertaining to a particular case. While uncertainties are inherent in the final outcome of such matters and it is presently impossible to determine the actual cost that may ultimately be incurred, we believe that we have sufficiently accrued for such matters and that the ultimate resolution of pending matters will not have a material impact on our consolidated financial position, operating results, or liquidity.

**8. Derivative Financial Instruments and Related Hedging Programs**

**Overview.** In conducting our business, we enter into derivative transactions, including forward contracts and options, to limit our economic (i.e. cash) exposure resulting from: (i) metal price risk related to our sale of fabricated aluminum products and the purchase of metal used as raw material for our fabrication operations; (ii) energy price risk relating to fluctuating prices of natural gas and electricity used in our production processes; and (iii) foreign currency requirements with respect to our foreign subsidiaries and cash commitments for equipment purchases denominated in foreign currency.

Our derivative activities are overseen by a hedging committee ("Hedging Committee"), which is composed of our chief executive officer, chief operating officer, chief financial officer, chief accounting officer, treasurer and vice president of commodity risk management and other officers and employees selected by the chief executive officer. The Hedging Committee meets regularly to review derivative positions and strategy and reports to our Board of Directors on the scope of its activities.

We are exposed to counterparty credit risk on all of our derivative instruments, which we manage by monitoring the credit quality of our counterparties and allocating our hedging positions among multiple counterparties to limit exposure to any single entity. Our counterparties are major, investment grade financial institutions or trading companies. Hedging transactions are governed by negotiated reciprocal credit lines, which require collateral to be posted above specified credit thresholds. We believe the risk of loss is remote and contained due to counterparty credit quality, our diversification practice and collateral requirements.

In a majority of our hedging counterparty agreements, our counterparty offers us a credit line that adjusts up or down, depending on our liquidity. Below specified liquidity thresholds, we may have to post collateral if the fair value of our net liability with such counterparty exceeds our reduced credit line. We manage this risk by allocating hedging transactions among multiple counterparties, using options as part of our hedging activities, or both. The aggregate fair value of our derivative instruments that were in a net liability position was \$1.7 million and \$14.6 million at September 30, 2016 and December 31, 2015, respectively, and we had no collateral posted as of those dates.

**Hedges of Operational Risks**

**Designated Foreign Currency Cash Flow Hedges.** We are exposed to foreign currency exchange risk related to firm-price agreements for equipment purchases from foreign manufacturers. Such agreements require that we make payments in foreign currency to the vendor over time based on milestone achievements. We use foreign currency forward contracts in order to mitigate the exposure to currency exchange rate fluctuations related to these purchases. The timing and amounts of the forward contract settlements are designed to line up with the timing and amounts of

scheduled payments to the foreign equipment manufacturers and are therefore expected to be highly effective hedges. As of September 30, 2016, we had open forward contracts designated as cash flow hedges to purchase euros with maturity dates between three months and 11 months. The notional amounts of these foreign currency forward contracts totaled 1.6 million euros and 4.7 million euros at September 30, 2016 and December 31, 2015, respectively, with a weighted average contract exchange rate of 1.13 and 1.15 euro to US dollar, respectively. The effective portion of the fair value on these instruments is recorded within Other comprehensive income (loss)

KAISER ALUMINUM CORPORATION AND SUBSIDIARY COMPANIES  
NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS - UNAUDITED

and is reclassified into the Statements of Consolidated Income (Loss) on the same line item and the same period in which the underlying equipment is depreciated. We had no such reclassifications into Net income (loss) during the quarters and nine months ended September 30, 2016 and September 30, 2015 and anticipate no material such reclassifications for the next 12 months. We incurred no ineffectiveness on these hedges during the quarters and nine months ended September 30, 2016 and September 30, 2015. As of September 30, 2016, the loss reported in Accumulated other comprehensive loss related to the cash flow hedges was \$0.1 million.

**Non-Designated Hedges of Operational Risks.** Our pricing of fabricated aluminum products is generally intended to lock in a conversion margin (representing the value added from the fabrication process(es)) and to pass through metal price fluctuations to our customers. For some of our higher value added products sold on a spot basis, the pass through of metal price movements can sometimes lag by as much as several months, with a favorable impact to us when metal prices decline and an adverse impact to us when metal prices increase. Additionally, in certain instances, we enter into firm-price arrangements with our customers for stipulated volumes to be delivered in the future. Because we generally purchase primary and secondary aluminum on a floating price basis, the lag in passing through metal price movements to customers on some of our higher value added products sold on a spot basis and the volume that we have committed to sell to our customers under a firm-price arrangement create metal price risk for us. We limit our exposure to this metal price risk through our use of third-party hedging instruments. See Note 9 for additional information regarding our material derivative positions relating to hedges of operational risk and their respective fair values.

**Realized and Unrealized Gain and Loss.** Realized and unrealized gain (loss) associated with all derivative contracts consisted of the following for each period presented (in millions of dollars):

|                                                       | Quarter Ended |          | Nine Months Ended |          |
|-------------------------------------------------------|---------------|----------|-------------------|----------|
|                                                       | September 30, |          | September 30,     |          |
|                                                       | 2016          | 2015     | 2016              | 2015     |
| Included in Other Comprehensive Income (Loss):        |               |          |                   |          |
| Unrealized gain (loss):                               |               |          |                   |          |
| Foreign currency cash flow hedge                      | \$0.1         | \$—      | \$0.2             | \$(0.2)  |
| Included in Statements of Consolidated Income (Loss): |               |          |                   |          |
| Realized loss:                                        |               |          |                   |          |
| Aluminum                                              | (0.4)         | (9.0)    | (4.1)             | (18.8)   |
| Natural gas                                           | (0.9)         | (1.2)    | (4.2)             | (3.8)    |
| Electricity                                           | —             | (0.3)    | —                 | (1.4)    |
| Total realized loss <sup>1</sup>                      | \$(1.3)       | \$(10.5) | \$(8.3)           | \$(24.0) |
| Unrealized gain (loss):                               |               |          |                   |          |
| Aluminum                                              | \$1.7         | \$(0.3)  | \$11.7            | \$(8.8)  |
| Natural gas                                           | 0.3           | (1.0)    | 5.2               | (0.2)    |
| Electricity                                           | —             | (0.4)    | —                 | 1.3      |
| Subtotal <sup>2</sup>                                 | 2.0           | (1.7)    | 16.9              | (7.7)    |
| Hedges related to the Convertible Notes:              |               |          |                   |          |
| Option assets                                         | —             | —        | —                 | 10.2     |
| Bifurcated conversion feature                         | —             | —        | —                 | (10.2)   |
| Subtotal <sup>3</sup>                                 | \$—           | \$—      | \$—               | \$—      |
| Total unrealized gain (loss)                          | \$2.0         | \$(1.7)  | \$16.9            | \$(7.7)  |

<sup>1</sup> Recorded within Cost of products sold, excluding depreciation, amortization and other items.

<sup>2</sup> Recorded within Unrealized (gain) loss on derivative instruments.

<sup>3</sup> Recorded within Other expense, net and relates to our 4.5% unsecured cash convertible senior notes ("Convertible Notes"), which settled in April 2015.



KAISER ALUMINUM CORPORATION AND SUBSIDIARY COMPANIES  
NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS - UNAUDITED

The following table summarizes our material derivative positions at September 30, 2016:

| Aluminum                                    | Maturity Period (month/year) | Notional Amount of contracts (mmlbs) |
|---------------------------------------------|------------------------------|--------------------------------------|
| Fixed price purchase contracts              | 10/16 through 6/18           | 158.8                                |
| Fixed price sales contracts                 | 10/16 through 12/16          | 0.4                                  |
| Midwest premium swap contracts <sup>1</sup> | 10/16 through 6/18           | 147.2                                |
| Natural Gas <sup>2</sup>                    | Maturity Period (month/year) | Notional Amount of contracts (mmbtu) |
| Fixed price purchase contracts              | 10/16 through 12/19          | 5,650,000                            |
| Euro                                        | Maturity Period (month/year) | Notional Amount of contracts (euro)  |
| Fixed price purchase contracts              | 12/16 through 8/17           | 1,593,700                            |

<sup>1</sup> Regional premiums represent the premium over the London Metal Exchange price for primary aluminum which is incurred on our purchases of primary aluminum.

As of September 30, 2016, we had derivative and/or physical delivery commitments with energy companies in place

<sup>2</sup> to cover exposure to fluctuations in prices for approximately 80%, 74%, 73% and 33% of the expected natural gas purchases for the remainder of 2016, 2017, 2018 and 2019 respectively.

We have physical delivery commitments at firm prices covering approximately 55%, 54%, 54% and 18% of our expected electricity purchases for the remainder of 2016, 2017, 2018 and 2019 respectively.

We enter into derivative contracts with counterparties, some of which are subject to enforceable master netting arrangements and some of which are not. We reflect the fair value of our derivative contracts on a gross basis on the Consolidated Balance Sheets (see Note 2).

The following tables present offsetting information regarding our derivatives by type of counterparty as of September 30, 2016 (in millions of dollars):

Derivative Assets and Collateral Held by Counterparty

|              |                                    |                                                         |                                                                    | Gross Amounts Not Offset in the Consolidated Balance Sheets |                          |            |
|--------------|------------------------------------|---------------------------------------------------------|--------------------------------------------------------------------|-------------------------------------------------------------|--------------------------|------------|
|              | Gross Amounts of Recognized Assets | Gross Amounts Offset in the Consolidated Balance Sheets | Net Amounts of Assets Presented in the Consolidated Balance Sheets | Financial Instruments                                       | Cash Collateral Received | Net Amount |
| Counterparty | \$ 2.9                             | \$                                                      | —\$ 2.9                                                            | \$ 1.0                                                      | \$                       | —\$ 1.9    |

(with netting agreements)

|                                   |        |    |         |        |    |         |
|-----------------------------------|--------|----|---------|--------|----|---------|
| Counterparty                      | 2.7    | —  | 2.7     | 0.6    | \$ | —\$ 2.1 |
| (with partial netting agreements) |        |    |         |        |    |         |
| Total                             | \$ 5.6 | \$ | —\$ 5.6 | \$ 1.6 | \$ | —\$ 4.0 |

KAISER ALUMINUM CORPORATION AND SUBSIDIARY COMPANIES  
NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS - UNAUDITED

## Derivative Liabilities and Collateral Held by Counterparty

|                                                   |                                                  |                                                                        |                                                                                           | Gross Amounts Not<br>Offset in the<br>Consolidated Balance<br>Sheets |                               |               |
|---------------------------------------------------|--------------------------------------------------|------------------------------------------------------------------------|-------------------------------------------------------------------------------------------|----------------------------------------------------------------------|-------------------------------|---------------|
|                                                   | Gross<br>Amounts of<br>Recognized<br>Liabilities | Gross<br>Amounts<br>Offset in the<br>Consolidated<br>Balance<br>Sheets | Net Amounts<br>of Liabilities<br>Presented in<br>the<br>Consolidated<br>Balance<br>Sheets | Financial<br>Instruments                                             | Cash<br>Collateral<br>Pledged | Net<br>Amount |
| Counterparty<br>(with netting agreements)         | \$ (1.9 )                                        | \$ —                                                                   | \$ (1.9 )                                                                                 | \$ (1.0 )                                                            | \$ —                          | —\$ (0.9 )    |
| Counterparty<br>(with partial netting agreements) | (1.3 )                                           | —                                                                      | (1.3 )                                                                                    | (0.6 )                                                               | —                             | (0.7 )        |
| Total                                             | \$ (3.2 )                                        | \$ —                                                                   | \$ (3.2 )                                                                                 | \$ (1.6 )                                                            | \$ —                          | —\$ (1.6 )    |

The following tables present offsetting information regarding our derivatives by type of counterparty as of December 31, 2015 (in millions of dollars):

## Derivative Assets and Collateral Held by Counterparty

|                                                   |                                             |                                                                        |                                                                                      | Gross Amounts Not<br>Offset in the<br>Consolidated<br>Balance Sheets |                                |               |
|---------------------------------------------------|---------------------------------------------|------------------------------------------------------------------------|--------------------------------------------------------------------------------------|----------------------------------------------------------------------|--------------------------------|---------------|
|                                                   | Gross<br>Amounts of<br>Recognized<br>Assets | Gross<br>Amounts<br>Offset in the<br>Consolidated<br>Balance<br>Sheets | Net Amounts<br>of Assets<br>Presented in<br>the<br>Consolidated<br>Balance<br>Sheets | Financial<br>Instruments                                             | Cash<br>Collateral<br>Received | Net<br>Amount |
| Counterparty<br>(with netting agreements)         | \$ 1.3                                      | \$ —                                                                   | \$ 1.3                                                                               | \$ 1.3                                                               | \$ —                           | —\$ —         |
| Counterparty<br>(with partial netting agreements) | 0.3                                         | —                                                                      | 0.3                                                                                  | 0.3                                                                  | —                              | —             |
| Total                                             | \$ 1.6                                      | \$ —                                                                   | \$ 1.6                                                                               | \$ 1.6                                                               | \$ —                           | —\$ —         |

## Derivative Liabilities and Collateral Held by Counterparty

|  |                                                  |                                                                        |                                                                                 | Gross Amounts Not<br>Offset in the<br>Consolidated Balance<br>Sheets |                               |               |
|--|--------------------------------------------------|------------------------------------------------------------------------|---------------------------------------------------------------------------------|----------------------------------------------------------------------|-------------------------------|---------------|
|  | Gross<br>Amounts of<br>Recognized<br>Liabilities | Gross<br>Amounts<br>Offset in the<br>Consolidated<br>Balance<br>Sheets | Net Amounts<br>of Liabilities<br>Presented in<br>the<br>Consolidated<br>Balance | Financial<br>Instruments                                             | Cash<br>Collateral<br>Pledged | Net<br>Amount |

Sheets

|                                                   |               |                          |            |
|---------------------------------------------------|---------------|--------------------------|------------|
| Counterparty<br>(with netting agreements)         | \$ (8.5 ) \$  | —\$ (8.5 ) \$ (1.3 ) \$  | —\$(7.2 )  |
| Counterparty<br>(with partial netting agreements) | (7.7 ) —      | (7.7 ) (0.3 ) —          | (7.4 )     |
| Total                                             | \$ (16.2 ) \$ | —\$ (16.2 ) \$ (1.6 ) \$ | —\$(14.6 ) |

9. Fair Value Measurements

Overview

We apply the fair value hierarchy established by GAAP for the recognition and measurement of certain financial assets and liabilities. An asset or liability's fair value classification within the hierarchy is determined based on the lowest level input that is significant to the fair value measurement. In determining fair value, we utilize valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible, and consider counterparty risk in our assessment of fair value.

KAISER ALUMINUM CORPORATION AND SUBSIDIARY COMPANIES  
NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS - UNAUDITED

The fair values of financial assets and liabilities are evaluated and measured on a recurring basis. As part of that evaluation process, we review the underlying inputs that are significant to the fair value measurement of financial instruments to determine if a transfer among hierarchy levels is appropriate. We historically have not had significant transfers into or out of each hierarchy level.

Financial assets and liabilities that we measure at fair value as required by GAAP include: (i) our derivative instruments; (ii) the plan assets of the Salaried VEBA and our Canadian defined benefit pension plan measured annually at December 31; and (iii) available for sale securities, consisting of debt investment securities and investments related to our deferred compensation plan (see Note 5). We record certain other financial assets and liabilities at carrying value (see the tables below for the fair value disclosure of those assets and liabilities).

The majority of our non-financial assets and liabilities, which include goodwill, intangible assets, inventories and property, plant and equipment, are not required to be measured at fair value on a recurring basis. However, if certain triggering events occur (or at least annually for goodwill), an evaluation of the affected non-financial asset or liability is required, potentially resulting in an adjustment to the carrying amount of such asset or liability.

**Fair Values of Financial Assets and Liabilities**

**Derivative Assets and Liabilities.** Our derivative contracts are valued at fair value using significant observable and unobservable inputs.

**Commodity, Energy and Foreign Currency Derivatives –** The fair values of a majority of these derivative contracts are based upon trades in liquid markets. Valuation model inputs can generally be verified, and valuation techniques do not involve significant judgment. The fair values of such financial instruments are generally classified within Level 2 of the fair value hierarchy. We, however, have some derivative contracts that do not have observable market quotes. For these financial instruments, management uses significant unobservable inputs (e.g., information concerning regional premiums for swaps). Where appropriate, valuations are adjusted for various factors, such as bid/offer spreads. The fair values of these financial instruments are classified as Level 3 in the fair value hierarchy.

**Salaried VEBA and Canadian Pension Plan Assets.** The plan assets of the Salaried VEBA and our Canadian pension plan are measured annually on December 31 and reflected in our Consolidated Balance Sheets at fair value. In determining the fair value of the plan assets at an annual period end, we utilize primarily the results of valuations supplied by the investment advisors responsible for managing the assets of each plan, which we independently review for reasonableness.

**Available for Sale Securities.** We hold debt investment securities that are accounted for as available for sale securities. The fair value of the debt investment securities, which consist of commercial paper and corporate bonds, is determined based on valuation models that use observable market data. At September 30, 2016, all of our short-term investments had maturity dates within 10 months. We review our debt investment portfolio for other-than-temporary impairment at least quarterly or when there are changes in credit risk or other potential valuation concerns. At September 30, 2016 and September 30, 2015, the total unrealized loss, net of tax, included in Accumulated other comprehensive loss was immaterial and was not other-than-temporarily impaired. We believe that it is probable that the principal and interest will be collected in accordance with the contractual terms, and that the unrealized loss on these securities were due to changes in normal market fluctuations, and were not due to increased credit risk or other valuation concerns. In addition to debt investment securities, we also hold assets in various investment funds at certain registered investment companies in connection with our deferred compensation program (see Note 5). Such assets are accounted for as available for sale securities and are measured and recorded at fair value based on the Net Asset Value ("NAV") of the investment funds on a recurring basis. The fair value input of our available for sale securities, which are classified within Level 2 of the fair value hierarchy, is calculated based on broker quotes. The amortized cost for available for sale securities approximates their fair value.

**All Other Financial Assets and Liabilities.** We believe that the fair value of our cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities approximate their respective carrying values due to their short maturities and nominal credit risk.

The fair values of the 5.875% Senior Notes at September 30, 2016 and 8.25% Senior Notes at December 31, 2015 were based on their respective trading prices and are considered Level 1 inputs in the fair value hierarchy (see Note 3 for the related carrying values).

KAISER ALUMINUM CORPORATION AND SUBSIDIARY COMPANIES  
NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS - UNAUDITED

The following table presents our financial instruments, classified under the appropriate level of the fair value hierarchy, as of the period presented (in millions of dollars):

|                                                 | September 30, 2016 |          |         |           |
|-------------------------------------------------|--------------------|----------|---------|-----------|
|                                                 | Level 1            | Level 2  | Level 3 | Total     |
| <b>FINANCIAL ASSETS:</b>                        |                    |          |         |           |
| Derivative Instruments (Non-Designated Hedges): |                    |          |         |           |
| Aluminum – Fixed price purchase contracts       | \$—                | \$5.1    | \$—     | \$5.1     |
| Natural gas – Fixed price purchase contracts    | —                  | 0.4      | —       | 0.4       |
| Midwest premium swap contracts                  | —                  | —        | 0.1     | 0.1       |
| All Other Financial Assets:                     |                    |          |         |           |
| Cash and cash equivalents                       | 26.8               | 46.1     | —       | 72.9      |
| Short-term investments                          | —                  | 201.0    | —       | 201.0     |
| Deferred compensation plan assets               | —                  | 8.3      | —       | 8.3       |
| Total assets                                    | \$26.8             | \$260.9  | \$0.1   | \$287.8   |
| <b>FINANCIAL LIABILITIES:</b>                   |                    |          |         |           |
| Derivative Instruments (Non-Designated Hedges): |                    |          |         |           |
| Aluminum –                                      |                    |          |         |           |
| Fixed price purchase contracts                  | \$—                | \$(0.4 ) | \$—     | \$(0.4 )  |
| Midwest premium swap contracts                  | —                  | —        | (0.8 )  | (0.8 )    |
| Natural gas – Fixed price purchase contracts    | —                  | (2.0 )   | —       | (2.0 )    |
| All Other Financial Liabilities:                |                    |          |         |           |
| 5.875% Senior Notes                             | (392.3 )           | —        | —       | (392.3 )  |
| Total liabilities                               | \$(392.3)          | \$(2.4 ) | \$(0.8) | \$(395.5) |

KAISER ALUMINUM CORPORATION AND SUBSIDIARY COMPANIES  
NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS - UNAUDITED

The following table presents our financial instruments, classified under the appropriate level of the fair value hierarchy, as of the period presented (in millions of dollars):

|                                                    | December 31, 2015 |          |         |           |
|----------------------------------------------------|-------------------|----------|---------|-----------|
|                                                    | Level 1           | Level 2  | Level 3 | Total     |
| <b>FINANCIAL ASSETS:</b>                           |                   |          |         |           |
| Derivative Instruments (Non-Designated Hedges):    |                   |          |         |           |
| Aluminum –                                         |                   |          |         |           |
| Call option purchase contracts                     | \$—               | \$0.2    | \$—     | \$0.2     |
| Fixed price purchase contracts                     | —                 | 0.3      | —       | 0.3       |
| Fixed price sales contracts                        | —                 | 0.2      | —       | 0.2       |
| Midwest premium swap contracts                     | —                 | —        | 0.9     | 0.9       |
| All Other Financial Assets:                        |                   |          |         |           |
| Cash and cash equivalents                          | 40.3              | 32.2     | —       | 72.5      |
| Short-term investments                             | —                 | 30.0     | —       | 30.0      |
| Deferred compensation plan assets                  | —                 | 7.3      | —       | 7.3       |
| Total assets                                       | \$40.3            | \$70.2   | \$0.9   | \$111.4   |
| <b>FINANCIAL LIABILITIES:</b>                      |                   |          |         |           |
| Derivative Instruments (Non-Designated Hedges):    |                   |          |         |           |
| Aluminum –                                         |                   |          |         |           |
| Fixed price purchase contracts                     | \$—               | \$(8.9 ) | \$—     | \$(8.9 )  |
| Fixed price sales contracts                        | —                 | (0.1 )   | —       | (0.1 )    |
| Midwest premium swap contracts                     | —                 | —        | (0.3 )  | (0.3 )    |
| Natural gas – Fixed price purchase contracts       | —                 | (6.7 )   | —       | (6.7 )    |
| Derivative Instruments (Designated Hedges):        |                   |          |         |           |
| Foreign currency – Euro forward purchase contracts | —                 | (0.2 )   | —       | (0.2 )    |
| All Other Financial Liabilities:                   |                   |          |         |           |
| 8.25% Senior Notes                                 | (207.3 )          | —        | —       | (207.3 )  |
| Total liabilities                                  | \$(207.3)         | \$(15.9) | \$(0.3) | \$(223.5) |

Financial instruments classified as Level 3 in the fair value hierarchy represent Midwest premium swap contracts for which at least one significant unobservable input in the valuation model is a management estimate. This is necessary due to the lack of an exchange traded product with observable market pricing data. Fair value was determined using a forward curve based on the average pricing quotes from our trading counterparties and applying a discount factor based on the risk-free interest rate.

KAISER ALUMINUM CORPORATION AND SUBSIDIARY COMPANIES  
NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS - UNAUDITED

The following table presents quantitative information for Level 3 Midwest premium derivative contracts:

|                                | Fair Value<br>at<br>September<br>30, 2016<br>(in<br>millions of<br>dollars) | Valuation<br>Technique | Unobservable<br>Input | Settlement Period      | Range (\$ in unit price)                         |
|--------------------------------|-----------------------------------------------------------------------------|------------------------|-----------------------|------------------------|--------------------------------------------------|
| Assets:                        |                                                                             |                        |                       |                        |                                                  |
| Midwest premium swap contracts | \$ 0.1                                                                      | Discounted fair value  | Forward price curve   | Oct -16 through Dec-17 | \$0.067 per metric ton to \$0.073 per metric ton |
| Liabilities:                   |                                                                             |                        |                       |                        |                                                  |
| Midwest premium swap contracts | \$ (0.8 )                                                                   | Discounted fair value  | Forward price curve   | Oct-16 through Jun-18  | \$0.067 per metric ton to \$0.076 per metric ton |

The following table presents a reconciliation of activity for the Midwest premium swap contracts on a net basis (in millions of dollars):

|                                                                                                                                 |            |
|---------------------------------------------------------------------------------------------------------------------------------|------------|
|                                                                                                                                 | Level<br>3 |
| Fair value measurement at December 31, 2015                                                                                     | \$0.6      |
| Total realized/unrealized (loss) included in:                                                                                   |            |
| Cost of goods sold excluding depreciation and amortization and other items and Unrealized (gain) loss on derivative instruments | (0.6 )     |
| Transactions involving Level 3 derivative contracts:                                                                            |            |
| Purchases                                                                                                                       | (1.2 )     |
| Sales                                                                                                                           | —          |
| Issuances                                                                                                                       | —          |
| Settlements                                                                                                                     | 0.4        |
| Transactions involving Level 3 derivatives – net                                                                                | (0.8 )     |
| Transfers in and/or out of Level 3 valuation hierarchy                                                                          | —          |
| Fair value measurement at September 30, 2016                                                                                    | \$(0.7)    |

Total loss included in Unrealized (gain) loss on derivative instruments, attributable to the change in unrealized gain/loss relating to derivative contracts held at September 30, 2016: \$(0.8)

Fair Values of Non-Financial Assets and Liabilities

The loss of a customer during the quarter ended September 30, 2016 triggered an evaluation of one of our customer relationship intangible assets. The evaluation indicated that the carrying value of this customer relationship intangible asset exceeded its estimated fair value as determined by future discounted cash flows. As such, we recorded a non-cash impairment charge of \$2.6 million during the quarter ended September 30, 2016 within Other operating charges, net.

Other than the impairment discussed above, we identified no other indicators of impairment associated with the remainder of our intangible assets during the nine months ended September 30, 2016. In addition, we concluded that none of our other non-financial assets and liabilities subject to fair value assessments on a non-recurring basis required a material adjustment to the carrying amount of such assets and liabilities during the nine months ended September 30, 2016 and September 30, 2015.



KAISER ALUMINUM CORPORATION AND SUBSIDIARY COMPANIES  
NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS - UNAUDITED

# 10. Net Income (Loss) Per Share

Basic and diluted net income (loss) per share were calculated as follows, for each period presented (in millions of dollars, except share and per share amounts):

|                                                                                                                | Quarter Ended |         | Nine Months Ended |           |
|----------------------------------------------------------------------------------------------------------------|---------------|---------|-------------------|-----------|
|                                                                                                                | September 30, |         | September 30,     |           |
|                                                                                                                | 2016          | 2015    | 2016              | 2015      |
| Numerator:                                                                                                     |               |         |                   |           |
| Net income (loss)                                                                                              | \$ 14.9       | \$ 22.1 | \$ 67.2           | \$(249.9) |
| Denominator – Weighted-average common shares outstanding (in thousands):                                       |               |         |                   |           |
| Basic <sup>1</sup>                                                                                             | 17,841        | 17,123  | 17,858            | 17,178    |
| Add: dilutive effect of non-vested common shares, restricted stock units, performance shares and stock options | 334           | 305     | 323               | —         |
| Add: dilutive effect of warrants <sup>2</sup>                                                                  | —             | 744     | —                 | —         |
| Diluted <sup>3</sup>                                                                                           | 18,175        | 18,172  | 18,181            | 17,178    |
| Net income (loss) per common share, Basic:                                                                     | \$ 0.84       | \$ 1.29 | \$ 3.76           | \$(14.55) |
| Net income (loss) per common share, Diluted:                                                                   | \$ 0.82       | \$ 1.21 | \$ 3.70           | \$(14.55) |

<sup>1</sup> The basic weighted-average number of common shares outstanding during the periods presented excludes non-vested common shares, restricted stock units and performance shares.

<sup>2</sup> Net-share-settled warrants ("Warrants") relating to approximately 1.7 million notional common shares of our common stock were outstanding at September 30, 2015 at an exercise price of approximately \$60.32 per share, and were settled during a period from October 1, 2015 through December 18, 2015.

<sup>3</sup> The diluted weighted-average number of common shares outstanding during the periods presented was calculated using the treasury method.

The following securities were excluded from the weighted-average diluted shares computation for the quarters and nine months ended September 30, 2016 and September 30, 2015 as their inclusion would have been anti-dilutive (in thousands of shares):

|                                                                         | Quarter Ended |      | Nine Months Ended |       |
|-------------------------------------------------------------------------|---------------|------|-------------------|-------|
|                                                                         | September 30, |      | September 30,     |       |
|                                                                         | 2016          | 2015 | 2016              | 2015  |
| Options to purchase common shares                                       | —             | —    | —                 | 17    |
| Non-vested common shares, restricted stock units and performance shares | 3             | —    | 2                 | 281   |
| Warrants                                                                | —             | —    | —                 | 773   |
| Total excluded                                                          | 3             | —    | 2                 | 1,071 |

During the nine months ended September 30, 2016 and September 30, 2015, we paid a total of approximately \$24.4 million (\$1.35 per common share) and \$21.0 million (\$1.20 per common share), respectively, in cash dividends to stockholders, including the holders of restricted stock, and dividend equivalents to the holders of certain restricted stock units and to the holders of performance shares granted prior to 2014 with respect to the target number of underlying common shares (constituting approximately one-half of the maximum payout).

From time to time, we repurchase shares pursuant to a stock repurchase program authorized by our Board of Directors. Repurchase transactions will occur at such times and prices as management deems appropriate and will be funded with our



KAISER ALUMINUM CORPORATION AND SUBSIDIARY COMPANIES  
NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS - UNAUDITED

excess liquidity after giving consideration to, among other things, internal and external growth opportunities and future cash flows. Repurchases may be in open-market transactions or in privately negotiated transactions and the program may be modified or terminated by our Board of Directors at any time.

During the nine months ended September 30, 2016 and September 30, 2015, we repurchased 170,304 shares of common stock at a weighted-average price of \$81.04 per share and 599,397 shares of common stock at a weighted-average price of \$75.81 per share, respectively, pursuant to the stock repurchase program. The total cost of \$13.8 million and \$45.4 million was recorded as Treasury stock during the nine months ended September 30, 2016 and September 30, 2015, respectively. At September 30, 2016, \$109.5 million were available to repurchase our common shares pursuant to the stock repurchase program.

**Preferred Stock.** In connection with the Tax Asset Rights Plan, our Board of Directors declared a dividend, payable April 22, 2016, of a Right to purchase one Series A Preferred for each outstanding share of our common stock, par value \$0.01 per share. The number of shares constituting Series A Preferred, par value \$0.01 per share, is 900,000. For more information regarding the Rights, see Note 4.

**11. Segment and Geographical Area Information**

Our primary line of business is the production of semi-fabricated specialty aluminum products, such as aluminum plate and sheet and extruded and drawn products, primarily used in aerospace/high strength ("Aero/HS products"), automotive ("Automotive Extrusions"), general engineering ("GE products") and other industrial end market applications ("Other products"). We operate 11 focused production facilities in the United States and one in Canada. Consistent with the manner in which our chief operating decision maker reviews and evaluates our business, the Fabricated Products business is treated as a single operating segment. At September 30, 2016, approximately 63% of our employees were covered by collective bargaining agreements and approximately 6% of our employees were covered by collective bargaining agreements with expiration dates occurring within one year from September 30, 2016.

In addition to the Fabricated Products segment, we have a business unit, All Other, which provides general and administrative support for our operations. For purposes of segment reporting under GAAP, we treat the Fabricated Products segment as a reportable segment. All Other is not considered a reportable segment.

The accounting policies of the Fabricated Products segment are the same as those described in Note 1. Segment results are evaluated internally by management before any allocation of corporate overhead and without any charge for income taxes, interest expense, or other net operating charges.

KAISER ALUMINUM CORPORATION AND SUBSIDIARY COMPANIES  
NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS - UNAUDITED

The following tables provide financial information by reporting segment and business unit for each period or as of each period-end, as applicable (in millions of dollars):

|                                     | Quarter Ended |          | Nine Months Ended |             |
|-------------------------------------|---------------|----------|-------------------|-------------|
|                                     | September 30, |          | September 30,     |             |
|                                     | 2016          | 2015     | 2016              | 2015        |
| Net sales:                          |               |          |                   |             |
| Fabricated Products                 | \$ 320.6      | \$ 336.4 | \$ 998.7          | \$ 1,075.3  |
| Segment operating income (loss):    |               |          |                   |             |
| Fabricated Products <sup>1</sup>    | \$ 42.1       | \$ 47.3  | \$ 172.1          | \$ 142.8    |
| All Other <sup>2</sup>              | (12.3 )       | (6.8 )   | (39.6 )           | (523.9 )    |
| Total operating income (loss)       | \$ 29.8       | \$ 40.5  | \$ 132.5          | \$ (381.1 ) |
| Interest expense                    | (5.5 )        | (4.9 )   | (14.7 )           | (19.9 )     |
| Other expense, net                  | —             | (0.9 )   | (10.4 )           | (0.1 )      |
| Income (loss) before income taxes   | \$ 24.3       | \$ 34.7  | \$ 107.4          | \$ (401.1 ) |
| Depreciation and amortization:      |               |          |                   |             |
| Fabricated Products                 | \$ 8.8        | \$ 7.9   | \$ 26.2           | \$ 23.8     |
| All Other                           | 0.2           | 0.2      | 0.5               | 0.4         |
| Total depreciation and amortization | \$ 9.0        | \$ 8.1   | \$ 26.7           | \$ 24.2     |
| Capital expenditures:               |               |          |                   |             |
| Fabricated Products                 | \$ 15.0       | \$ 15.1  | \$ 57.1           | \$ 37.8     |
| All Other                           | 0.1           | 0.4      | 0.3               | 0.6         |
| Total capital expenditures          | \$ 15.1       | \$ 15.5  | \$ 57.4           | \$ 38.4     |

<sup>1</sup> Fabricated Products segment operating income included non-cash mark-to-market gain on primary aluminum, natural gas and foreign currency hedging activities, which totaled \$2.0 million and 16.9 million for the quarter and nine months ended September 30, 2016, respectively. Non-cash mark-to-market loss on primary aluminum, natural gas, electricity and foreign currency hedging activities totaled \$1.7 million and \$7.7 million for the quarter and nine months ended September 30, 2015, respectively. For further discussion regarding mark-to-market matters, see Note 8.

<sup>2</sup> Operating loss in All Other included loss on removal of Union VEBA net assets of \$2.9 million and \$490.9 million for the quarter and nine months ended September 30, 2015, respectively. See Note 5 for further details.

|  | September 30, 2016 | December 31, 2015 |
|--|--------------------|-------------------|
|--|--------------------|-------------------|

|                        |            |            |
|------------------------|------------|------------|
| Assets:                |            |            |
| Fabricated Products    | \$ 962.3   | \$ 904.7   |
| All Other <sup>1</sup> | 471.1      | 342.9      |
| Total assets           | \$ 1,433.4 | \$ 1,247.6 |

<sup>1</sup> Assets in All Other represent primarily all of our cash and cash equivalents, short-term investments, financial derivative assets (see Note 9) and net deferred income tax assets.

KAISER ALUMINUM CORPORATION AND SUBSIDIARY COMPANIES  
NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS - UNAUDITED

Net sales by product categories based on end market applications for the Fabricated Products segment were as follows (in millions of dollars):

|                       | Quarter Ended |          | Nine Months Ended |            |
|-----------------------|---------------|----------|-------------------|------------|
|                       | September 30, |          | September 30,     |            |
|                       | 2016          | 2015     | 2016              | 2015       |
| Net sales:            |               |          |                   |            |
| Aero/HS products      | \$ 156.1      | \$ 170.0 | \$ 500.7          | \$ 531.4   |
| Automotive Extrusions | 46.5          | 49.5     | 143.6             | 153.3      |
| GE products           | 105.6         | 100.4    | 318.3             | 331.5      |
| Other products        | 12.4          | 16.5     | 36.1              | 59.1       |
| Total net sales       | \$ 320.6      | \$ 336.4 | \$ 998.7          | \$ 1,075.3 |

Geographic information for income taxes paid were as follows (in millions of dollars):

|                         | Quarter Ended |        | Nine Months Ended |        |
|-------------------------|---------------|--------|-------------------|--------|
|                         | September 30, |        | September 30,     |        |
|                         | 2016          | 2015   | 2016              | 2015   |
| Income taxes paid:      |               |        |                   |        |
| Fabricated Products –   |               |        |                   |        |
| United States           | \$ 0.1        | \$ 0.1 | \$ 0.4            | \$ 0.4 |
| Canada                  | —             | 0.2    | 0.5               | 1.5    |
| Total income taxes paid | \$ 0.1        | \$ 0.3 | \$ 0.9            | \$ 1.9 |

The aggregate foreign currency transaction gain (loss) included in Net income (loss) was immaterial for the quarters and nine months ended September 30, 2016 and September 30, 2015.

For the quarter ended September 30, 2016, one customer represented 25% and another represented 11% of Fabricated Products Net sales. For the nine months ended September 30, 2016, one customer represented 26% and another represented 10% of Fabricated Products Net sales. For both the quarter and nine months ended September 30, 2015, one customer represented 25% of Fabricated Products Net Sales. No other individual customer accounted for more than 10% of Fabricated Products Net sales during the quarter and nine months ended September 30, 2015.

At September 30, 2016, one customer represented 16%, a second customer represented 12% and a third customer represented 10% of the trade receivables balance. Two individual customers each accounted for 17% of the trade receivables balance at December 31, 2015.

Information for delivery of our primary aluminum supply from our major suppliers were as follows:

|                                                    | Quarter Ended |      | Nine Months Ended |      |
|----------------------------------------------------|---------------|------|-------------------|------|
|                                                    | September 30, |      | September 30,     |      |
|                                                    | 2016          | 2015 | 2016              | 2015 |
| Percentage of total primary aluminum supply (lbs): |               |      |                   |      |
| Supply from our top five major suppliers           | 84 %          | 84 % | 84 %              | 86 % |
| Supply from our largest supplier                   | 28 %          | 28 % | 32 %              | 28 % |
| Supply from our second and third largest suppliers | 33 %          | 45 % | 31 %              | 36 % |

KAISER ALUMINUM CORPORATION AND SUBSIDIARY COMPANIES  
NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS - UNAUDITED

12. Supplemental Cash Flow Information

Nine Months  
Ended  
September 30,  
2016 2015  
(In millions of  
dollars)

|                                                                 |        |         |
|-----------------------------------------------------------------|--------|---------|
| Interest paid                                                   | \$ 6.7 | \$ 13.5 |
| Non-cash investing and financing activities:                    |        |         |
| Stock repurchases not yet settled (accrued in accounts payable) | \$ 0.2 | \$ 0.3  |
| Unpaid purchases of property and equipment                      | \$ 2.4 | \$ 4.4  |

13. Other Expense, Net

Other expense, net consisted of the following for each period presented (in millions of dollars):

|                                             | Quarter Ended |           | Nine Months Ended |           |
|---------------------------------------------|---------------|-----------|-------------------|-----------|
|                                             | September 30, |           | September 30,     |           |
|                                             | 2016          | 2015      | 2016              | 2015      |
| Interest income                             | \$ —          | \$ 0.1    | \$ 0.1            | \$ 0.3    |
| Realized gain on investments                | 0.1           | —         | 0.4               | 0.5       |
| Loss on extinguishment of debt <sup>1</sup> | —             | —         | (11.1 )           | —         |
| All other, net                              | (0.1 )        | (1.0 )    | 0.2               | (0.9 )    |
| Other expense, net                          | \$ —          | \$ (0.9 ) | \$ (10.4 )        | \$ (0.1 ) |

Represents the loss on extinguishment of our 8.25% Senior Notes during the nine months ended September 30,

<sup>1</sup> 2016, which includes an \$8.2 million premium paid to redeem the notes and a \$2.9 million write-off of unamortized debt issuance costs associated with the notes.

KAISER ALUMINUM CORPORATION AND SUBSIDIARY COMPANIES  
NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS - UNAUDITED

14. Other Comprehensive Income

The following table presents the tax effect allocated to each component of other comprehensive income for each period presented (in millions of dollars):

|                                                                                             | Before-Tax<br>Amount | Income<br>Tax<br>(Expense)<br>Benefit <sup>3</sup> | Net-of-Tax<br>Amount |
|---------------------------------------------------------------------------------------------|----------------------|----------------------------------------------------|----------------------|
| Quarter Ended September 30, 2016                                                            |                      |                                                    |                      |
| Salaried VEBA:                                                                              |                      |                                                    |                      |
| Reclassification adjustments:                                                               |                      |                                                    |                      |
| Amortization of net actuarial loss <sup>1</sup>                                             | \$ 0.1               | \$ —                                               | \$ 0.1               |
| Amortization of prior service cost <sup>1</sup>                                             | 1.0                  | (0.4 )                                             | 0.6                  |
| Other comprehensive income relating to Salaried VEBA                                        | 1.1                  | (0.4 )                                             | 0.7                  |
| Available for sale securities:                                                              |                      |                                                    |                      |
| Unrealized gain on available for sale securities                                            | 0.9                  | (0.4 )                                             | 0.5                  |
| Reclassification adjustments:                                                               |                      |                                                    |                      |
| Reclassification of unrealized gain upon sale of available for sale securities <sup>2</sup> | (0.3 )               | 0.1                                                | (0.2 )               |
| Other comprehensive income relating to available for sale securities                        | 0.6                  | (0.3 )                                             | 0.3                  |
| Unrealized gain on foreign currency cash flow hedges                                        | 0.1                  | —                                                  | 0.1                  |
| Other comprehensive income                                                                  | \$ 1.8               | \$ (0.7 )                                          | \$ 1.1               |
| Quarter Ended September 30, 2015                                                            |                      |                                                    |                      |
| Salaried VEBA:                                                                              |                      |                                                    |                      |
| Reclassification adjustments:                                                               |                      |                                                    |                      |
| Amortization of net actuarial loss <sup>1</sup>                                             | \$ 0.3               | \$ (0.1 )                                          | \$ 0.2               |
| Amortization of prior service cost <sup>1</sup>                                             | 0.7                  | (0.2 )                                             | 0.5                  |
| Other comprehensive income relating to Salaried VEBA                                        | 1.0                  | (0.3 )                                             | 0.7                  |
| Available for sale securities:                                                              |                      |                                                    |                      |
| Unrealized loss on available for sale securities                                            | (0.4 )               | 0.1                                                | (0.3 )               |
| Reclassification adjustments:                                                               |                      |                                                    |                      |
| Reclassification of unrealized gain upon sale of available for sale securities <sup>2</sup> | (0.1 )               | 0.1                                                | —                    |
| Other comprehensive loss relating to available for sale securities                          | (0.5 )               | 0.2                                                | (0.3 )               |
| Foreign currency translation loss                                                           | (0.3 )               | —                                                  | (0.3 )               |
| Other comprehensive income                                                                  | \$ 0.2               | \$ (0.1 )                                          | \$ 0.1               |

KAISER ALUMINUM CORPORATION AND SUBSIDIARY COMPANIES  
NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS - UNAUDITED

|                                                                                             | Before-Tax<br>Amount | Income<br>Tax<br>(Expense)<br>Benefit <sup>3</sup> | Net-of-Tax<br>Amount |
|---------------------------------------------------------------------------------------------|----------------------|----------------------------------------------------|----------------------|
| Nine Months Ended September 30, 2016                                                        |                      |                                                    |                      |
| Salaried VEBA:                                                                              |                      |                                                    |                      |
| Reclassification adjustments:                                                               |                      |                                                    |                      |
| Amortization of net actuarial loss <sup>1</sup>                                             | \$ 0.3               | \$ (0.1 )                                          | \$ 0.2               |
| Amortization of prior service cost <sup>1</sup>                                             | 3.0                  | (1.1 )                                             | 1.9                  |
| Other comprehensive income relating to Salaried VEBA                                        | 3.3                  | (1.2 )                                             | 2.1                  |
| Available for sale securities:                                                              |                      |                                                    |                      |
| Unrealized gain on available for sale securities                                            | 1.3                  | (0.5 )                                             | 0.8                  |
| Reclassification adjustments:                                                               |                      |                                                    |                      |
| Reclassification of unrealized gain upon sale of available for sale securities <sup>2</sup> | (0.3 )               | 0.1                                                | (0.2 )               |
| Other comprehensive income relating to available for sale securities                        | 1.0                  | (0.4 )                                             | 0.6                  |
| Translation gain on Canadian pension plan accumulated other comprehensive income balance    | 0.1                  | —                                                  | 0.1                  |
| Unrealized gain on foreign currency cash flow hedges                                        | 0.2                  | (0.1 )                                             | 0.1                  |
| Other comprehensive income                                                                  | \$ 4.6               | \$ (1.7 )                                          | \$ 2.9               |
| Nine Months Ended September 30, 2015                                                        |                      |                                                    |                      |
| VEBAs:                                                                                      |                      |                                                    |                      |
| Reclassification adjustments:                                                               |                      |                                                    |                      |
| Amortization of net actuarial loss <sup>1</sup>                                             | \$ 0.8               | \$ (0.3 )                                          | \$ 0.5               |
| Amortization of prior service cost <sup>1</sup>                                             | 2.2                  | (0.8 )                                             | 1.4                  |
| Removal of obligation relating to Union VEBA                                                | 106.6                | (40.4 )                                            | 66.2                 |
| Other comprehensive income relating to VEBAs                                                | 109.6                | (41.5 )                                            | 68.1                 |
| Available for sale securities:                                                              |                      |                                                    |                      |
| Unrealized loss on available for sale securities                                            | (0.7 )               | 0.2                                                | (0.5 )               |
| Reclassification adjustments:                                                               |                      |                                                    |                      |
| Reclassification of unrealized loss upon sale of available for sale securities <sup>2</sup> | 0.1                  | —                                                  | 0.1                  |
| Other comprehensive loss relating to available for sale securities                          | (0.6 )               | 0.2                                                | (0.4 )               |
| Unrealized loss on foreign currency cash flow hedges                                        | (0.2 )               | 0.1                                                | (0.1 )               |
| Foreign currency translation loss                                                           | (0.2 )               | —                                                  | (0.2 )               |
| Other comprehensive income                                                                  | \$ 108.6             | \$ (41.2 )                                         | \$ 67.4              |

<sup>1</sup> Amounts reclassified out of Accumulated other comprehensive loss relating to Salaried VEBA adjustments were included as a component of Net periodic postretirement benefit cost relating to Salaried VEBA.

<sup>2</sup> Amounts reclassified out of Accumulated other comprehensive loss relating to sales of available for sale securities were included as a component of Other expense, net. We use the specific identification method to determine the amount reclassified out of Accumulated other comprehensive loss.

<sup>3</sup> Income tax amounts reclassified out of Accumulated other comprehensive loss were included as a component of Income tax (provision) benefit.

KAISER ALUMINUM CORPORATION AND SUBSIDIARY COMPANIES  
NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS - UNAUDITED

15. Condensed Guarantor and Non-Guarantor Financial Information

During the quarter ended June 30, 2016, we issued our 5.875% Senior Notes and repaid the remaining principal balance of our 8.25% Senior Notes. The 5.875% Senior Notes were issued pursuant to an indenture dated May 12, 2016 ("2016 Indenture"), among Kaiser Aluminum Corporation ("Parent"), the subsidiary guarantors party thereto ("Guarantor Subsidiaries") and Wells Fargo Bank, National Association, as trustee ("Trustee"). The Guarantor Subsidiaries include Kaiser Aluminum Investments Company, Kaiser Aluminum Fabricated Products, LLC, Kaiser Aluminum Washington, LLC and Kaiser Aluminum Alexco, LLC, all of which are 100% owned by the Parent. The guarantees are full and unconditional and joint and several but have customary releases in the following situations: (i) the sale of the Guarantor Subsidiary or all of its assets; (ii) the declaration of a Guarantor Subsidiary as an unrestricted subsidiary under the 2016 Indenture; (iii) the termination or release of the Guarantor Subsidiary's guarantee of certain other indebtedness; or (iv) our exercise of legal defeasance or covenant defeasance or the discharge of our obligations under the 2016 Indenture.

The following condensed consolidating financial information as of September 30, 2016 and December 31, 2015, and for the quarters and nine months ended September 30, 2016 and September 30, 2015 present: (i) the financial position, results of operation and cash flows for each of (a) Parent, (b) the Guarantor Subsidiaries on a combined basis and (c) the Non-Guarantor Subsidiaries on a combined basis; (ii) the "Consolidating Adjustments," which represent the adjustments necessary to eliminate the investments in our subsidiaries, other intercompany balances and other intercompany sales and cost of sales among Parent, the Guarantor Subsidiaries and the Non-Guarantor Subsidiaries; and (iii) the resulting totals, reflecting information for us on a consolidated basis, as reported. The condensed consolidating financial information should be read in conjunction with the consolidated financial statements herein. Under the 2016 Indenture, "Non-Guarantor Subsidiaries" include Kaiser Aluminum Mill Products, Inc., Kaiser Aluminum Canada Limited, Trochus Insurance Company, DCO Management, LLC, Kaiser Aluminum France, S.A.S. and Kaiser Aluminum Beijing Trading Company. Kaiser Aluminum Mill Products, Inc. was included in the "Guarantor Subsidiaries" under the indenture covering the 8.25% Senior Notes but is not a Guarantor Subsidiary under the 2016 Indenture. Historical periods have not been restated to move Kaiser Aluminum Mill Products, Inc. from the Guarantor Subsidiaries category to the Non-Guarantor Subsidiaries category because the impact of this change to the financial position, results of operation and cash flows with respect to the Guarantor Subsidiaries on a combined basis and the Non-Guarantor Subsidiaries on a combined basis is immaterial.

KAISER ALUMINUM CORPORATION AND SUBSIDIARY COMPANIES  
NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS - UNAUDITED

## CONDENSED CONSOLIDATING BALANCE SHEET

(In millions of dollars)

September 30, 2016

|                                                 | Parent    | Guarantor<br>Subsidiaries | Non-Guarantor<br>Subsidiaries | Consolidating<br>Adjustments | Consolidated |
|-------------------------------------------------|-----------|---------------------------|-------------------------------|------------------------------|--------------|
| <b>ASSETS</b>                                   |           |                           |                               |                              |              |
| Current assets:                                 |           |                           |                               |                              |              |
| Cash and cash equivalents                       | \$—       | \$ 69.2                   | \$ 3.7                        | \$ —                         | \$ 72.9      |
| Short-term investments                          | —         | 201.0                     | —                             | —                            | 201.0        |
| Receivables:                                    |           |                           |                               |                              |              |
| Trade receivables – net                         | —         | 138.0                     | 4.2                           | —                            | 142.2        |
| Intercompany loans receivable                   | 82.1      | 0.1                       | 0.6                           | (82.8 )                      | —            |
| Other                                           | —         | 5.6                       | 1.7                           | —                            | 7.3          |
| Inventories                                     | —         | 221.3                     | 6.1                           | (3.8 )                       | 223.6        |
| Prepaid expenses and other current assets       | 0.2       | 10.4                      | 0.4                           | (0.1 )                       | 10.9         |
| Total current assets                            | 82.3      | 645.6                     | 16.7                          | (86.7 )                      | 657.9        |
| Investments in and advances to subsidiaries     | 986.3     | 33.4                      | —                             | (1,019.7 )                   | —            |
| Property, plant and equipment – net             | —         | 487.0                     | 31.6                          | —                            | 518.6        |
| Long-term intercompany loans receivable         | 123.5     | 4.4                       | 7.3                           | (135.2 )                     | —            |
| Deferred tax assets – net                       | —         | 164.0                     | —                             | 6.9                          | 170.9        |
| Intangible assets – net                         | —         | 26.7                      | —                             | —                            | 26.7         |
| Goodwill                                        | —         | 37.2                      | —                             | —                            | 37.2         |
| Other assets                                    | —         | 22.0                      | 0.1                           | —                            | 22.1         |
| Total                                           | \$1,192.1 | \$ 1,420.3                | \$ 55.7                       | \$ (1,234.7 )                | \$ 1,433.4   |
| <b>LIABILITIES AND<br/>STOCKHOLDERS' EQUITY</b> |           |                           |                               |                              |              |
| Current liabilities:                            |           |                           |                               |                              |              |
| Accounts payable                                | \$1.0     | \$ 62.9                   | \$ 5.7                        | \$ —                         | \$ 69.6      |
| Intercompany loans payable                      | —         | 82.7                      | 0.1                           | (82.8 )                      | —            |
| Accrued salaries, wages and related expenses    | —         | 40.6                      | 2.2                           | —                            | 42.8         |
| Other accrued liabilities                       | 8.5       | 49.2                      | 0.6                           | (11.6 )                      | 46.7         |
| Short-term capital leases                       | —         | 0.1                       | —                             | —                            | 0.1          |
| Total current liabilities                       | 9.5       | 235.5                     | 8.6                           | (94.4 )                      | 159.2        |
| Net liabilities of Salaried VEBA                | —         | 18.2                      | —                             | —                            | 18.2         |
| Deferred tax liabilities                        | —         | —                         | 2.2                           | —                            | 2.2          |
| Long-term intercompany loans payable            | —         | 130.8                     | 4.4                           | (135.2 )                     | —            |
| Long-term liabilities                           | —         | 65.2                      | 6.0                           | —                            | 71.2         |
| Long-term debt                                  | 368.5     | —                         | —                             | —                            | 368.5        |
| Total liabilities                               | 378.0     | 449.7                     | 21.2                          | (229.6 )                     | 619.3        |
| Total stockholders' equity                      | 814.1     | 970.6                     | 34.5                          | (1,005.1 )                   | 814.1        |
| Total                                           | \$1,192.1 | \$ 1,420.3                | \$ 55.7                       | \$ (1,234.7 )                | \$ 1,433.4   |

KAISER ALUMINUM CORPORATION AND SUBSIDIARY COMPANIES  
NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS - UNAUDITED

## CONDENSED CONSOLIDATING BALANCE SHEET

(In millions of dollars)

December 31, 2015

|                                                 | Parent    | Guarantor<br>Subsidiaries | Non-Guarantor<br>Subsidiaries | Consolidating<br>Adjustments | Consolidated |
|-------------------------------------------------|-----------|---------------------------|-------------------------------|------------------------------|--------------|
| <b>ASSETS</b>                                   |           |                           |                               |                              |              |
| Current assets:                                 |           |                           |                               |                              |              |
| Cash and cash equivalents                       | \$—       | \$ 72.2                   | \$ 0.3                        | \$ —                         | \$ 72.5      |
| Short-term investments                          | —         | 30.0                      | —                             | —                            | 30.0         |
| Receivables:                                    |           |                           |                               |                              |              |
| Trade receivables – net                         | —         | 114.0                     | 2.7                           | —                            | 116.7        |
| Intercompany receivables                        | —         | 111.2                     | 1.1                           | (112.3 )                     | —            |
| Other                                           | —         | 3.8                       | 2.3                           | —                            | 6.1          |
| Inventories                                     | —         | 216.3                     | 6.6                           | (3.3 )                       | 219.6        |
| Prepaid expenses and other current assets       | 0.2       | 56.2                      | 1.7                           | (1.4 )                       | 56.7         |
| Total current assets                            | 0.2       | 603.7                     | 14.7                          | (117.0 )                     | 501.6        |
| Investments in and advances to subsidiaries     | 1,077.2   | 31.4                      | —                             | (1,108.6 )                   | —            |
| Property, plant and equipment – net             | —         | 464.3                     | 31.1                          | —                            | 495.4        |
| Long-term intercompany receivables              | —         | —                         | 3.1                           | (3.1 )                       | —            |
| Deferred tax assets – net                       | —         | 156.3                     | —                             | 7.0                          | 163.3        |
| Intangible assets – net                         | —         | 30.5                      | —                             | —                            | 30.5         |
| Goodwill                                        | —         | 37.2                      | —                             | —                            | 37.2         |
| Other assets                                    | —         | 19.5                      | 0.1                           | —                            | 19.6         |
| Total                                           | \$1,077.4 | \$ 1,342.9                | \$ 49.0                       | \$ (1,221.7 )                | \$ 1,247.6   |
| <b>LIABILITIES AND<br/>STOCKHOLDERS' EQUITY</b> |           |                           |                               |                              |              |
| Current liabilities:                            |           |                           |                               |                              |              |
| Accounts payable                                | \$0.5     | \$ 73.6                   | \$ 2.6                        | \$ —                         | \$ 76.7      |
| Intercompany payable                            | 106.5     | 14.8                      | 4.0                           | (125.3 )                     | —            |
| Accrued salaries, wages and related expenses    | —         | 38.3                      | 1.5                           | —                            | 39.8         |
| Other accrued liabilities                       | 1.4       | 52.3                      | 0.4                           | (1.4 )                       | 52.7         |
| Short-term capital leases                       | —         | 0.1                       | —                             | —                            | 0.1          |
| Total current liabilities                       | 108.4     | 179.1                     | 8.5                           | (126.7 )                     | 169.3        |
| Net liabilities of Salaried VEBA                | —         | 19.0                      | —                             | —                            | 19.0         |
| Deferred tax liabilities                        | —         | —                         | 2.1                           | —                            | 2.1          |
| Long-term intercompany payable                  | —         | 3.1                       | —                             | (3.1 )                       | —            |
| Long-term liabilities                           | —         | 81.3                      | 6.2                           | —                            | 87.5         |
| Long-term debt                                  | 194.6     | —                         | —                             | —                            | 194.6        |
| Total liabilities                               | 303.0     | 282.5                     | 16.8                          | (129.8 )                     | 472.5        |
| Total stockholders' equity                      | 774.4     | 1,060.4                   | 32.2                          | (1,091.9 )                   | 775.1        |
| Total                                           | \$1,077.4 | \$ 1,342.9                | \$ 49.0                       | \$ (1,221.7 )                | \$ 1,247.6   |

KAISER ALUMINUM CORPORATION AND SUBSIDIARY COMPANIES  
NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS - UNAUDITED

CONDENSED CONSOLIDATING STATEMENT OF COMPREHENSIVE INCOME

(In millions of dollars)

Quarter Ended September 30, 2016

|                                                                                | Parent | Guarantor<br>Subsidiaries | Non-Guarantor<br>Subsidiaries | Consolidating<br>Adjustments | Consolidated |
|--------------------------------------------------------------------------------|--------|---------------------------|-------------------------------|------------------------------|--------------|
| Net sales                                                                      | \$—    | \$ 313.9                  | \$ 26.6                       | \$ (19.9 )                   | \$ 320.6     |
| Costs and expenses:                                                            |        |                           |                               |                              |              |
| Cost of products sold:                                                         |        |                           |                               |                              |              |
| Cost of products sold, excluding depreciation and amortization and other items | —      | 250.0                     | 23.7                          | (19.0 )                      | 254.7        |
| Unrealized gain on derivative instruments                                      | —      | (2.0 )                    | —                             | —                            | (2.0 )       |
| Depreciation and amortization                                                  | —      | 8.5                       | 0.5                           | —                            | 9.0          |
| Selling, general, administrative, research and development:                    |        |                           |                               |                              |              |
| Selling, general, administrative, research and development                     | 0.9    | 24.0                      | 1.3                           | (0.6 )                       | 25.6         |
| Net periodic postretirement benefit cost relating to Salaried VEBA             | —      | 0.8                       | —                             | —                            | 0.8          |
| Total selling, general, administrative, research and development               | 0.9    | 24.8                      | 1.3                           | (0.6 )                       | 26.4         |
| Other operating charges, net                                                   | —      | 2.7                       | —                             | —                            | 2.7          |
| Total costs and expenses                                                       | 0.9    | 284.0                     | 25.5                          | (19.6 )                      | 290.8        |
| Operating (loss) income                                                        | (0.9 ) | 29.9                      | 1.1                           | (0.3 )                       | 29.8         |
| Other (expense) income:                                                        |        |                           |                               |                              |              |
| Interest (expense) income                                                      | (5.7 ) | 0.1                       | —                             | 0.1                          | (5.5 )       |
| Other (expense) income, net                                                    | (0.1 ) | 0.1                       | 0.1                           | (0.1 )                       | —            |
| (Loss) income before income taxes                                              | (6.7 ) | 30.1                      | 1.2                           | (0.3 )                       | 24.3         |
| Income tax provision                                                           | —      | (11.6 )                   | (0.3 )                        | 2.5                          | (9.4 )       |
| Earnings in equity of subsidiaries                                             | 21.6   | 0.7                       | —                             | (22.3 )                      | —            |
| Net income                                                                     | \$14.9 | \$ 19.2                   | \$ 0.9                        | \$ (20.1 )                   | \$ 14.9      |
| Comprehensive income                                                           | \$16.0 | \$ 20.3                   | \$ 0.9                        | \$ (21.2 )                   | \$ 16.0      |

KAISER ALUMINUM CORPORATION AND SUBSIDIARY COMPANIES  
NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS - UNAUDITED

CONDENSED CONSOLIDATING STATEMENT OF COMPREHENSIVE INCOME

(In millions of dollars)

Nine Months Ended September 30, 2016

|                                                                                | Parent  | Guarantor<br>Subsidiaries | Non-Guarantor<br>Subsidiaries | Consolidating<br>Adjustments | Consolidated |
|--------------------------------------------------------------------------------|---------|---------------------------|-------------------------------|------------------------------|--------------|
| Net sales                                                                      | \$—     | \$ 976.9                  | \$ 80.6                       | \$ (58.8 )                   | \$ 998.7     |
| Costs and expenses:                                                            |         |                           |                               |                              |              |
| Cost of products sold:                                                         |         |                           |                               |                              |              |
| Cost of products sold, excluding depreciation and amortization and other items | —       | 753.1                     | 70.3                          | (56.3 )                      | 767.1        |
| Lower of cost or market inventory write-down                                   | —       | 4.9                       | —                             | —                            | 4.9          |
| Unrealized gain on derivative instruments                                      | —       | (16.9 )                   | —                             | —                            | (16.9 )      |
| Depreciation and amortization                                                  | —       | 25.2                      | 1.5                           | —                            | 26.7         |
| Selling, general, administrative, research and development:                    |         |                           |                               |                              |              |
| Selling, general, administrative, research and development                     | 3.3     | 71.4                      | 6.5                           | (2.0 )                       | 79.2         |
| Net periodic postretirement benefit cost relating to Salaried VEBA             | —       | 2.5                       | —                             | —                            | 2.5          |
| Gain on removal of Union VEBA net assets                                       | —       | (0.1 )                    | —                             | —                            | (0.1 )       |
| Total selling, general, administrative, research and development               | 3.3     | 73.8                      | 6.5                           | (2.0 )                       | 81.6         |
| Other operating charges, net                                                   | —       | 2.8                       | —                             | —                            | 2.8          |
| Total costs and expenses                                                       | 3.3     | 842.9                     | 78.3                          | (58.3 )                      | 866.2        |
| Operating (loss) income                                                        | (3.3 )  | 134.0                     | 2.3                           | (0.5 )                       | 132.5        |
| Other (expense) income:                                                        |         |                           |                               |                              |              |
| Interest (expense) income                                                      | (15.9 ) | 1.1                       | —                             | 0.1                          | (14.7 )      |
| Other (expense) income, net                                                    | (11.1 ) | 0.6                       | 0.2                           | (0.1 )                       | (10.4 )      |
| (Loss) income before income taxes                                              | (30.3 ) | 135.7                     | 2.5                           | (0.5 )                       | 107.4        |
| Income tax provision                                                           | —       | (51.1 )                   | (0.7 )                        | 11.6                         | (40.2 )      |
| Earnings in equity of subsidiaries                                             | 97.5    | 1.3                       | —                             | (98.8 )                      | —            |
| Net income                                                                     | \$67.2  | \$ 85.9                   | \$ 1.8                        | \$ (87.7 )                   | \$ 67.2      |
| Comprehensive income                                                           | \$70.1  | \$ 88.7                   | \$ 1.9                        | \$ (90.6 )                   | \$ 70.1      |

KAISER ALUMINUM CORPORATION AND SUBSIDIARY COMPANIES  
NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS - UNAUDITED

CONDENSED CONSOLIDATING STATEMENT OF COMPREHENSIVE (LOSS) INCOME

(In millions of dollars)

Quarter Ended September 30, 2015

|                                                                                | Parent | Guarantor<br>Subsidiaries | Non-Guarantor<br>Subsidiaries | Consolidating<br>Adjustments | Consolidated |
|--------------------------------------------------------------------------------|--------|---------------------------|-------------------------------|------------------------------|--------------|
| Net sales                                                                      | \$—    | \$ 329.5                  | \$ 29.4                       | \$ (22.5 )                   | \$ 336.4     |
| Costs and expenses:                                                            |        |                           |                               |                              |              |
| Cost of products sold:                                                         |        |                           |                               |                              |              |
| Cost of products sold, excluding depreciation and amortization and other items | —      | 263.1                     | 25.3                          | (21.1 )                      | 267.3        |
| Unrealized loss on derivative instruments                                      | —      | 1.7                       | —                             | —                            | 1.7          |
| Depreciation and amortization                                                  | —      | 7.8                       | 0.3                           | —                            | 8.1          |
| Selling, general, administrative, research and development:                    |        |                           |                               |                              |              |
| Selling, general, administrative, research and development                     | 0.9    | 18.4                      | 2.4                           | (0.6 )                       | 21.1         |
| Net periodic postretirement benefit cost relating to Salaried VEBA             | —      | 0.6                       | —                             | —                            | 0.6          |
| Gain on removal of Union VEBA net assets                                       | —      | (2.9 )                    | —                             | —                            | (2.9 )       |
| Total selling, general, administrative, research and development               | 0.9    | 16.1                      | 2.4                           | (0.6 )                       | 18.8         |
| Total costs and expenses                                                       | 0.9    | 288.7                     | 28.0                          | (21.7 )                      | 295.9        |
| Operating (loss) income                                                        | (0.9 ) | 40.8                      | 1.4                           | (0.8 )                       | 40.5         |
| Other (expense) income:                                                        |        |                           |                               |                              |              |
| Interest expense                                                               | (4.7 ) | (0.3 )                    | —                             | 0.1                          | (4.9 )       |
| Other (expense) income, net                                                    | (0.6 ) | 2.2                       | (2.4 )                        | (0.1 )                       | (0.9 )       |
| (Loss) income before income taxes                                              | (6.2 ) | 42.7                      | (1.0 )                        | (0.8 )                       | 34.7         |
| Income tax (provision) benefit                                                 | —      | (15.6 )                   | 0.8                           | 2.2                          | (12.6 )      |
| Earnings (loss) in equity of subsidiaries                                      | 28.3   | (1.0 )                    | —                             | (27.3 )                      | —            |
| Net income (loss)                                                              | \$22.1 | \$ 26.1                   | \$ (0.2 )                     | \$ (25.9 )                   | \$ 22.1      |
| Comprehensive income (loss)                                                    | \$22.2 | \$ 26.5                   | \$ (0.5 )                     | \$ (26.0 )                   | \$ 22.2      |

KAISER ALUMINUM CORPORATION AND SUBSIDIARY COMPANIES  
NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS - UNAUDITED

CONDENSED CONSOLIDATING STATEMENT OF COMPREHENSIVE (LOSS) INCOME

(In millions of dollars)

Nine Months Ended September 30, 2015

|                                                                                | Parent     | Guarantor<br>Subsidiaries | Non-Guarantor<br>Subsidiaries | Consolidating<br>Adjustments | Consolidated |
|--------------------------------------------------------------------------------|------------|---------------------------|-------------------------------|------------------------------|--------------|
| Net sales                                                                      | \$—        | \$ 1,051.2                | \$ 97.6                       | \$ (73.5 )                   | \$ 1,075.3   |
| Costs and expenses:                                                            |            |                           |                               |                              |              |
| Cost of products sold:                                                         |            |                           |                               |                              |              |
| Cost of products sold, excluding depreciation and amortization and other items | —          | 848.9                     | 85.8                          | (70.3 )                      | 864.4        |
| Unrealized loss on derivative instruments                                      | —          | 7.7                       | —                             | —                            | 7.7          |
| Depreciation and amortization                                                  | —          | 23.3                      | 0.9                           | —                            | 24.2         |
| Selling, general, administrative, research and development:                    |            |                           |                               |                              |              |
| Selling, general, administrative, research and development                     | 3.3        | 58.6                      | 7.2                           | (1.7 )                       | 67.4         |
| Net periodic postretirement benefit cost relating to Salaried VEBA             | —          | 1.8                       | —                             | —                            | 1.8          |
| Loss on removal of Union VEBA net assets                                       | —          | 490.9                     | —                             | —                            | 490.9        |
| Total selling, general, administrative, research and development               | 3.3        | 551.3                     | 7.2                           | (1.7 )                       | 560.1        |
| Total costs and expenses                                                       | 3.3        | 1,431.2                   | 93.9                          | (72.0 )                      | 1,456.4      |
| Operating (loss) income                                                        | (3.3 )     | (380.0 )                  | 3.7                           | (1.5 )                       | (381.1 )     |
| Other (expense) income:                                                        |            |                           |                               |                              |              |
| Interest expense                                                               | (19.1 )    | (1.1 )                    | —                             | 0.3                          | (19.9 )      |
| Other (expense) income, net                                                    | (0.6 )     | 3.0                       | (2.2 )                        | (0.3 )                       | (0.1 )       |
| (Loss) income before income taxes                                              | (23.0 )    | (378.1 )                  | 1.5                           | (1.5 )                       | (401.1 )     |
| Income tax benefit                                                             | —          | 140.5                     | 2.2                           | 8.5                          | 151.2        |
| (Loss) earnings in equity of subsidiaries                                      | (226.9 )   | 2.2                       | —                             | 224.7                        | —            |
| Net (loss) income                                                              | \$(249.9 ) | \$(235.4 )                | \$ 3.7                        | \$ 231.7                     | \$(249.9 )   |
| Comprehensive (loss) income                                                    | \$(182.5 ) | \$(167.8 )                | \$ 3.5                        | \$ 164.3                     | \$(182.5 )   |

KAISER ALUMINUM CORPORATION AND SUBSIDIARY COMPANIES  
NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS - UNAUDITED

## CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS

(In millions of dollars)

Nine Months Ended September 30, 2016

|                                                                                               | Parent   | Guarantor<br>Subsidiaries | Non-Guarantor<br>Subsidiaries | Consolidating<br>Adjustments | Consolidated |
|-----------------------------------------------------------------------------------------------|----------|---------------------------|-------------------------------|------------------------------|--------------|
| Cash flows from operating activities:                                                         |          |                           |                               |                              |              |
| Net cash provided by operating activities                                                     | \$ 189.7 | \$ 108.4                  | \$ 8.5                        | \$ (200.0 )                  | \$ 106.6     |
| Cash flows from investing activities:                                                         |          |                           |                               |                              |              |
| Capital expenditures                                                                          | —        | (55.6 )                   | (1.8 )                        | —                            | (57.4 )      |
| Purchase of available for sale securities                                                     | —        | (201.1 )                  | —                             | —                            | (201.1 )     |
| Proceeds from disposition of available for sale securities                                    | —        | 30.0                      | —                             | —                            | 30.0         |
| Intercompany loans receivable <sup>1</sup>                                                    | (205.6 ) | 106.0                     | (3.7 )                        | 103.3                        | —            |
| Net cash (used in) provided by investing activities                                           | (205.6 ) | (120.7 )                  | (5.5 )                        | 103.3                        | (228.5 )     |
| Cash flows from financing activities:                                                         |          |                           |                               |                              |              |
| Repayment of principal and redemption premium of 8.25% Senior Notes                           | (206.0 ) | —                         | —                             | —                            | (206.0 )     |
| Issuance of 5.875% Senior Notes                                                               | 375.0    | —                         | —                             | —                            | 375.0        |
| Cash paid for debt issuance costs                                                             | (6.8 )   | —                         | —                             | —                            | (6.8 )       |
| Proceeds from stock option exercises                                                          | 1.0      | —                         | —                             | —                            | 1.0          |
| Repayment of capital lease                                                                    | —        | —                         | (0.1 )                        | —                            | (0.1 )       |
| Cancellation of shares to cover employees' tax withholdings upon vesting of non-vested shares | (2.8 )   | —                         | —                             | —                            | (2.8 )       |
| Repurchase of common stock                                                                    | (13.6 )  | —                         | —                             | —                            | (13.6 )      |
| Cash dividends paid to stockholders                                                           | (24.4 )  | —                         | —                             | —                            | (24.4 )      |
| Cash dividends paid to Parent                                                                 | —        | (200.0 )                  | —                             | 200.0                        | —            |
| Intercompany loans payable <sup>1</sup>                                                       | (106.5 ) | 209.3                     | 0.5                           | (103.3 )                     | —            |
| Net cash provided by financing activities                                                     | 15.9     | 9.3                       | 0.4                           | 96.7                         | 122.3        |
| Net (decrease) increase in cash and cash equivalents during the period                        | —        | (3.0 )                    | 3.4                           | —                            | 0.4          |
| Cash and cash equivalents at beginning of period                                              | —        | 72.2                      | 0.3                           | —                            | 72.5         |
| Cash and cash equivalents at end of period                                                    | \$ —     | \$ 69.2                   | \$ 3.7                        | \$ —                         | \$ 72.9      |

As a result of the Parent's additional liquidity associated with the 5.875% Senior Notes (see Note 3), we classify all intercompany receivables and payables as Intercompany loans receivable and Intercompany loans payable, respectively, and therefore categorize changes in these balances within the investing and financing sections, respectively, of the Condensed Consolidating Statement of Cash Flows.

KAISER ALUMINUM CORPORATION AND SUBSIDIARY COMPANIES  
NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS - UNAUDITED

## CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS

(In millions of dollars)

Nine Months Ended September 30, 2015

|                                                                                                               | Parent   | Guarantor<br>Subsidiaries | Non-Guarantor<br>Subsidiaries | Consolidating<br>Adjustments | Consolidated |
|---------------------------------------------------------------------------------------------------------------|----------|---------------------------|-------------------------------|------------------------------|--------------|
| Cash flows from operating activities:                                                                         |          |                           |                               |                              |              |
| Net cash provided by (used in) operating activities                                                           | \$250.2  | \$ (140.8 )               | \$ (0.5 )                     | \$ —                         | \$ 108.9     |
| Cash flows from investing activities:                                                                         |          |                           |                               |                              |              |
| Capital expenditures                                                                                          | —        | (26.0 )                   | (12.4 )                       | —                            | (38.4 )      |
| Purchase of available for sale securities                                                                     | —        | (0.5 )                    | —                             | —                            | (0.5 )       |
| Proceeds from disposition of available for sale securities                                                    | —        | 84.0                      | —                             | —                            | 84.0         |
| Net cash provided by (used in) investing activities                                                           | —        | 57.5                      | (12.4 )                       | —                            | 45.1         |
| Cash flows from financing activities:                                                                         |          |                           |                               |                              |              |
| Repayment of principal and redemption premium of 8.25% Senior Notes                                           | (6.1 )   | —                         | —                             | —                            | (6.1 )       |
| Repayment of Convertible Notes                                                                                | (175.0 ) | —                         | —                             | —                            | (175.0 )     |
| Proceeds from cash-settled call options related to repayment of Convertible Notes                             | 94.9     | —                         | —                             | —                            | 94.9         |
| Payment for conversion premium related to repayment of Convertible Notes                                      | (94.9 )  | —                         | —                             | —                            | (94.9 )      |
| Excess tax benefit upon vesting of non-vested shares and dividend payment on unvested shares expected to vest | —        | 1.1                       | —                             | —                            | 1.1          |
| Cancellation of shares to cover employees' tax withholdings upon vesting of non-vested shares                 | (3.0 )   | —                         | —                             | —                            | (3.0 )       |
| Repurchase of common stock                                                                                    | (45.1 )  | —                         | —                             | —                            | (45.1 )      |
| Cash dividend paid to stockholders                                                                            | (21.0 )  | —                         | —                             | —                            | (21.0 )      |
| Intercompany loans payable                                                                                    | —        | (13.5 )                   | 13.5                          | —                            | —            |
| Net cash (used in) provided by financing activities                                                           | (250.2 ) | (12.4 )                   | 13.5                          | —                            | (249.1 )     |
| Net (decrease) increase in cash and cash equivalents during the period                                        | —        | (95.7 )                   | 0.6                           | —                            | (95.1 )      |
| Cash and cash equivalents at beginning of period                                                              | —        | 175.3                     | 2.4                           | —                            | 177.7        |
| Cash and cash equivalents at end of period                                                                    | \$—      | \$ 79.6                   | \$ 3.0                        | \$ —                         | \$ 82.6      |

## 16. Subsequent Events

Dividend Declaration. On October 14, 2016, we announced that our Board of Directors declared a cash dividend of \$0.45 per common share or approximately \$8.1 million (including dividend equivalents), which will be paid on or about November 15, 2016 to stockholders of record at the close of business on October 25, 2016.

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

This Item should be read in conjunction with Part I, Item 1. "Financial Statements" of this Quarterly Report on Form 10-Q (this "Report").

This Report contains statements which constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. These statements appear throughout this Report and can be identified by the use of forward-looking terminology such as "believes," "expects," "may," "estimates," "will," "should," "plans" or "anticipates" or the negative of the foregoing or other variations of comparable terminology, or by discussions of strategy. Readers are cautioned that any such forward-looking statements are not guarantees of future performance and involve significant risks and uncertainties and that actual results may vary from those in the forward-looking statements as a result of various factors. These factors include: the effectiveness of management's strategies and decisions; general economic and business conditions, including cyclicalities and other conditions in the aerospace, automotive and other end market applications we serve; developments in technology; new or modified statutory or regulatory requirements; and changing prices and market conditions. This Item, Part II, Item 1A. "Risk Factors" included in this Report and Part I, Item 1A. "Risk Factors" included in our Annual Report on Form 10-K for the year ended December 31, 2015 each identify other factors that could cause actual results to vary. No assurance can be given that these are all of the factors that could cause actual results to vary materially from the forward-looking statements.

Management's discussion and analysis of financial condition and results of operations ("MD&A") is designed to provide a reader of our financial statements with a narrative from the perspective of our management on our financial condition, results of operations, liquidity and certain other factors that may affect our future results. Our MD&A is presented in the following sections:

Overview;

Highlights of the Quarter Ended September 30, 2016;

Results of Operations;

Liquidity and Capital Resources;

Contractual Obligations, Commercial Commitments and Off-Balance-Sheet and Other Arrangements;

Critical Accounting Estimates and Policies;

New Accounting Pronouncements; and

Available Information.

Our MD&A should be read in conjunction with the consolidated financial statements and related notes thereto included under Part I, Item 1. "Financial Statements" included in this Report and the consolidated financial statements and related notes included in Part II, Item 8. "Financial Statements and Supplementary Data" of our Annual Report on Form 10-K for the year ended December 31, 2015.

In the discussion of operating results below, we refer to certain non-GAAP items as non-run-rate items. The non-run-rate items used in this Report include value added revenue and operating income (loss) excluding non-run-rate items. For purposes of such discussion, non-run-rate items are items that, while they may recur from period-to-period: (i) are particularly material to results; (ii) affect costs primarily as a result of external market factors; and (iii) may not recur in future periods if the same level of underlying performance were to occur. Non-run-rate items are part of our business and operating environment but are disclosed for the benefit of readers of our financial statements. Our intent is to allow users of the financial statements to consider our results both in light of and separately from items such as unrealized-mark-to-market gain or loss on derivatives related to fluctuations in underlying metal prices and energy prices and currency exchange rates, lower of cost or market inventory write-downs and gain or loss related to the voluntary employee beneficiary associations ("VEBAs"). For a reconciliation of operating income (loss) excluding non-run-rate items to operating income (loss), see "Results of Operations - Segment and Business Unit Information" below.

A fundamental part of our business model is to mitigate the impact of aluminum price volatility. We purchase primary and scrap aluminum, our main raw material, at prices that fluctuate on a monthly basis, and we use pricing policies that generally allow us to pass metal cost fluctuations through to our customers. For some of our higher value added products sold on a spot basis, however, the pass through of metal price movements can sometimes lag by as much as

several months, with a favorable impact to us when metal prices decline and an adverse impact to us when metal prices increase. Additionally, we often enter into firm-price customer sales agreements that specify the underlying metal price plus a conversion price. Spot sales with lagged metal price pass through and firm-price sales agreements create metal price exposure for us, which we mitigate through a hedging program. Our pricing policies and hedging program are designed to largely mitigate the impact that fluctuations in

underlying metal price may have on our profitability. As such, we provide information regarding value added revenue, which represents Net sales less the Hedged Cost of Alloyed Metal. Hedged Cost of Alloyed Metal is our Midwest Transaction Price of aluminum ("Midwest Price"), which reflects the primary aluminum supply/demand dynamics in North America, plus the cost of alloying elements plus any realized gains and/or losses on settled hedges related to the metal sold in the referenced period. Value added revenue (including average realized value added revenue and value added revenue of the product categories of our Fabricated Products segment) is disclosed for the benefit of readers of our financial statements. Our intent is to allow users of the financial statements to consider our net sales information both with and without the metal cost component thereof. For a reconciliation of value added revenue to net sales, see "Results of Operations - Segment and Business Unit Information" below.

#### Overview

We are a leading North American manufacturer of semi-fabricated specialty aluminum products for the following end market applications: aerospace and high strength products ("Aero/HS products"); extrusions for automotive applications ("Automotive Extrusions"); general engineering products ("GE products"); and other industrial products ("Other products").

At September 30, 2016, we operated 11 focused production facilities in the United States and one facility in Canada that produce rolled, extruded and drawn aluminum products used principally for aerospace and defense, automotive, consumer durables, electronics, electrical and machinery and equipment end market applications. Through these facilities, we recorded Net sales of approximately \$998.7 million on shipments of approximately 462.6 million pounds of semi-fabricated aluminum products during the nine months ended September 30, 2016.

We have long-standing relationships with our customers, which consist primarily of blue-chip companies including leading aerospace and automotive manufacturers, tier one aerospace and automotive suppliers, and metal service centers. We have a culture of continuous improvement that is facilitated by the Kaiser Production System ("KPS"), an integrated application of tools such as Lean Manufacturing, Six Sigma and Total Productive Manufacturing. We believe KPS enables us to continuously reduce our own manufacturing costs and eliminate waste throughout the value chain. We strive to tightly integrate the management of the operations within our Fabricated Products segment across multiple production facilities, product lines and target markets in order to maximize the efficiency of product flow to our customers.

Our highly engineered products are manufactured to meet demanding requirements of aerospace/high strength, automotive, general engineering and other industrial end market applications. We have focused our business on select end market applications where we believe we have sustainable competitive advantages and opportunities for long-term profitable growth. We believe that we differentiate ourselves with "Best in Class" customer satisfaction driven by quality, availability, service and delivery performance. We believe that we further differentiate ourselves by offering a broad product portfolio, including our KaiserSelect® products, which are engineered and manufactured to deliver enhanced product characteristics with improved consistency, which results in such benefits as better performance, lower waste and, in many cases, lower production cost for our customers.

In the commercial aerospace sector, we believe that global economic growth and development will continue to drive growth in airline passenger miles. In addition, trends such as longer routes, larger payloads and focus on fuel efficiency have increased the demand for new and larger aircraft. We believe the strength of commercial aerospace demand is demonstrated by the existing nine-year backlog for the two primary manufacturers of commercial aircraft. Further, we believe that the long-term demand drivers, including growing build rates, larger airframes and continued conversion of parts to monolithic design (where aluminum plate is heavily machined to form the desired part from a single piece of metal as opposed to using aluminum sheet, extrusions or forgings that are affixed to one another using rivets, bolts or welds) throughout the industry will continue to increase demand for our high strength aerospace plate. We expect aerospace plate demand to grow at a pace higher than our other Aero/HS products (including sheet, extruded shapes, cold finish rod and bar and tube) as some of the applications using these other Aero/HS products continue to be converted to monolithic design (using plate in lieu of these other products). Additionally, our Aero/HS products other than plate tend to be used to a greater degree in applications that have a lower growth rate than commercial aerospace.

Our Aero/HS and GE products are also sold for use in defense end market applications. Requirements of military engagements and spending limits by the United States government will determine near-term demand for our Aero/HS and GE products for use in such applications. We expect the production of the F-35, or Joint Strike Fighter to continue to be a demand driver for our Aero/HS products.

Commercial aerospace and defense end market applications have demanding customer requirements for quality and consistency. As a result, there are a limited number of suppliers worldwide who are qualified to serve these market segments.

We believe barriers to entry include significant capital requirements, technological expertise and a rigorous qualification process for safety-critical applications.

In recent years, automotive original equipment manufacturers ("OEMs") and their suppliers have, at an increasing pace, been converting many automotive components that historically were made of steel to aluminum to decrease weight without sacrificing structural integrity and safety performance and thereby achieve greater fuel efficiency standards mandated by stringent United States' Corporate Average Fuel Economy ("CAFE") regulations. We believe fuel efficiency standards along with consumer preference for larger vehicles will continue to drive growth in demand for aluminum extruded components in passenger vehicles as a replacement for the heavier weight of steel components. Our Automotive Extrusions are designed and produced to provide specific mechanical properties and performance attributes required in automotive applications across a broad mix of North American OEMs and automotive platforms. We believe that these attributes are not easily replicated by our competitors and are important to our customers, who are typically first tier automotive suppliers.

Our GE products serve the North American industrial market segments, and demand for these products generally tracks the broader manufacturing economic environment.

Highlights of the quarter ended September 30, 2016 include:

- Solid demand for Aero/HS products, Automotive Extrusions and GE products, impacted modestly by normal seasonality;

- Continued improvement in underlying cost and manufacturing efficiency;

- Higher planned major maintenance expense;

- Combined cash and cash equivalents, short-term investments and net borrowing availability under our Revolving Credit Facility of approximately \$554.2 million, with no borrowings under the revolving credit facility, as of September 30, 2016;

- Declaration and payment of a regular dividend of \$0.45 per common share, or \$8.1 million;

- Repurchase of 61,271 shares of our common stock at the weighted average price per share of \$84.62; and

- Declaration of effectiveness of our exchange offer registration statement in connection with the issuance of the \$1.875 billion Senior Notes by the Securities and Exchange Commission and the tender of 100% of the outstanding principal amount of the original notes in exchange for an equal aggregate principal amount of exchange notes.

#### Results of Operations

##### Consolidated Results of Operations

**Net Sales.** Net sales totaled \$320.6 million and \$336.4 million for the quarters ended September 30, 2016 and September 30, 2015, respectively. The 5% decrease in net sales reflected a 4% decrease in average realized sales price per pound and a slight decrease in Fabricated Products segment shipment volume. The decrease in average realized sales price per pound primarily reflected a \$0.08/lb, or 9%, decrease in average Hedged Cost of Alloyed Metal prices per pound. The slight decrease in Fabricated Products segment shipment volume reflected: (i) lower shipments of Aero/HS products primarily related to higher than normal in-transit inventory and (ii) lower shipments of Automotive Extrusions and Other products, partially offset by an increase in shipments of GE products.

Net sales totaled \$998.7 million and \$1,075.3 million for the nine months ended September 30, 2016 and September 30, 2015, respectively. The 7% decrease in Net sales reflected a 6% decrease in total average realized sales price per pound and a slight decrease in Fabricated Products segment shipment volume. The decrease in total average realized sales price per pound was primarily due to a \$0.18/lb, or 18%, decrease in average Hedged Cost of Alloyed Metal prices per pound, partially offset by a \$0.04/lb, or 3%, increase in average value added revenue per pound. The increase in average value added revenue per pound reflected continued benefits of pricing improvements on some Aero/HS products and the benefit from lower contained metal prices on some high value added products. The slight decrease in Fabricated Products segment shipment volume reflected lower shipments of Aero/HS and Other products, partially offset by an increase in shipments of GE products.

The price for the aluminum we purchase is typically based on the Average Midwest Transaction Price ("Midwest Price"). The Midwest Price represents the London Metal Exchange price ("LME") plus a Midwest premium, which fluctuates in



response to the aluminum supply/demand dynamics in North America. Fluctuation in the Midwest Price for primary aluminum does not necessarily directly impact profitability because: (i) a substantial portion of the business conducted by the Fabricated Products segment passes aluminum price changes directly onto customers and (ii) our hedging activities in support of the Fabricated Products segment's firm-price sales agreements limit our losses, as well as gains, from primary metal price changes. The average LME plus Midwest premium transaction price per pound of primary aluminum for the quarters ended September 30, 2016 and September 30, 2015 was \$0.74 + \$0.06 and \$0.72 + \$0.08, respectively, and \$0.71 + \$0.08 and \$0.78 + \$0.14 for the nine months ended September 30, 2016 and September 30, 2015, respectively.

Cost of Products Sold, Excluding Depreciation and Amortization and Other Items. Cost of products sold, excluding depreciation and amortization and other items for the quarter ended September 30, 2016 totaled \$254.7 million, or 79% of Net sales, compared to \$267.3 million, or 79% of Net sales, for the quarter ended September 30, 2015. The decrease of \$12.6 million was comprised of a \$11.8 million decrease in Hedged Cost of Alloyed Metal and a \$0.8 million decrease in net manufacturing conversion and other costs. Of the \$11.8 million decrease in Hedged Cost of Alloyed Metal, \$9.8 million was due to lower hedged metal prices and \$2.0 million was due to lower shipment volume, as discussed in "Net Sales" above. The decrease in net manufacturing conversion and other costs reflected a \$1.9 million impact of lower shipment volume and a decrease of \$6.3 million in controllable manufacturing costs, partially offset by a \$5.9 million increase in overhead and benefits costs and higher major maintenance expense of \$1.5 million. See "Segment and Business Unit Information" below for a further discussion of the comparative results of operations for the quarters ended September 30, 2016 and September 30, 2015.

Cost of products sold, excluding depreciation and amortization and other items for the nine months ended September 30, 2016 totaled \$767.1 million, or 77% of Net sales, compared to \$864.4 million, or 80% of Net sales, for the nine months ended September 30, 2015. The decrease of \$97.3 million was comprised of a decrease of \$88.7 million related to lower Hedged Cost of Alloyed Metal and a decrease of \$8.6 million in net manufacturing conversion and other costs. Of the \$88.7 million decrease in Hedged Cost of Alloyed Metal, \$83.0 million was due to lower hedged metal prices and \$5.7 million was due to a slightly lower shipment volume. The \$8.6 million decrease in net manufacturing conversion and other costs reflected: (i) a \$4.6 million impact of lower shipment volume; (ii) a decrease of \$10.7 million in controllable manufacturing costs; and (iii) a decrease of \$2.4 million from lower energy pricing, offset by: (iv) a \$6.5 million increase in overhead and benefits costs and (v) higher major maintenance expense of \$2.6 million. See "Segment and Business Unit Information" below for a further discussion of the comparative results of operations for the nine months ended September 30, 2016 and September 30, 2015.

Lower of Cost or Market Inventory Write-Down. See Note 1 of Notes to Interim Consolidated Financial Statements included in this Report for information on our inventory lower of cost or market value adjustments.

Selling, General, Administrative, Research and Development ("SG&A and R&D"). SG&A and R&D expense totaled \$25.6 million and \$21.1 million for the quarters ended September 30, 2016 and September 30, 2015, respectively. The increase was due primarily to increases of: (i) \$2.2 million in our short-term incentive compensation based on improved performance measures; (ii) \$0.9 million in our long-term incentive compensation; (iii) \$0.8 million in deferred compensation; and (iv) \$0.5 million in professional fees and services.

SG&A and R&D expense was \$79.2 million and \$67.4 million for the nine months ended September 30, 2016 and September 30, 2015, respectively. The increase was due primarily to increases of: (i) \$6.2 million in our short-term incentive compensation based on improved performance measures; (ii) \$1.9 million in our long-term incentive compensation; (iii) \$1.1 million in professional fees and services; and (iv) a combined increase in deferred compensation, workers' compensation, environmental costs and salaries and benefits of approximately \$1.4 million. The increase in SG&A and R&D was also due to \$1.2 million of insurance settlement proceeds we received during the nine months ended September 30, 2015.

Net Periodic Postretirement Benefit Cost Relating to Salaried VEBA. Net periodic postretirement benefit cost relating to Salaried VEBA totaled \$0.8 million and \$0.6 million for the quarters ended September 30, 2016 and September 30, 2015, respectively, and \$2.5 million and \$1.8 million for the nine months ended September 30, 2016 and September 30, 2015, respectively. See Note 5 of Notes to Interim Consolidated Financial Statements included in this Report for disclosure regarding the Salaried VEBA.

(Gain) Loss on Removal of Union VEBA Net Assets. There was no (gain) loss on removal of Union VEBA net assets for the quarter ended September 30, 2016. (Gain) loss on removal of Union VEBA net assets for the quarter ended September 30, 2015 was \$(2.9) million. For the nine months ended September 30, 2016 and September 30, 2015, (gain) loss on removal of Union VEBA net assets was \$(0.1) million and \$490.9 million, respectively. (Gain) loss on removal of Union VEBA net assets for the nine months ended September 30, 2015 was due to the removal of the Union VEBA's plan assets, related deferred tax liabilities and accumulated other comprehensive loss from our consolidated financial statements during the quarter ended March 31, 2015 as a result of the definitive expiration of our obligation to make annual variable contributions to the Union VEBA for any

period after September 2017. The loss on the removal of Union VEBA net assets included a \$45.4 million accrual for the estimated variable contributions to be paid with respect to 2015, 2016 and 2017. Because the amount of each annual variable cash contribution is subject to change based on our actual cash flow for each respective calendar year, we review the estimated liability for the remaining variable cash contributions quarterly and reflect changes in our Operating (loss) income. See Note 5 of Notes to Interim Consolidated Financial Statements included in this Report for further details.

**Interest Expense.** Interest expense represents cash and non-cash interest expense incurred on our 5.875% Senior Notes, 8.25% Senior Notes and our revolving credit facility, net of capitalized interest. Interest expense was \$5.5 million and \$4.9 million for the quarters ended September 30, 2016 and September 30, 2015, respectively, net of \$0.6 million and \$0.4 million of interest expense capitalized as part of construction in progress, respectively.

Interest expense was \$14.7 million and \$19.9 million for the nine months ended September 30, 2016 and September 30, 2015, respectively, net of \$2.4 million and \$1.1 million of interest expense capitalized as part of construction in progress, respectively. The decrease in interest expense was due to the settlement of our Convertible Notes on April 1, 2015. Non-cash amortization of the discount on our Convertible Notes accounted for \$2.4 million of the total interest expense for the nine months ended September 30, 2015.

**Other Expense, Net.** See Note 13 of Notes to Interim Consolidated Financial Statements included in this Report for details.

**Income Tax (Provision) Benefit.** See Note 4 of Notes to Interim Consolidated Financial Statements included in this Report for disclosure regarding our income tax provision.

#### **Derivatives**

See Note 8 of Notes to Interim Consolidated Financial Statements included in this Report for disclosure regarding our derivatives.

#### **Fair Value Measurements**

See Note 9 of Notes to Interim Consolidated Financial Statements included in this Report for disclosure regarding our fair value measurements.

#### **Deferred Tax Assets**

Our net deferred tax assets were \$170.9 million and \$212.9 million at September 30, 2016 and December 31, 2015, respectively. The decrease in the net deferred tax assets was primarily related to a decrease of \$40.3 million for the utilization of our net operating losses.

#### **Segment and Business Unit Information**

The following data should be read in conjunction with our consolidated financial statements and the notes thereto included in Part I, Item 1. "Financial Statements" of this Report. See Note 11 of Notes to Interim Consolidated Financial Statements included in this Report for further information regarding segments. Interim results are not necessarily indicative of those for a full year.

## Fabricated Products

The table below provides selected operational and financial information for our Fabricated Products segment for each period presented (in millions of dollars):

|                                                                    | Quarter Ended<br>September 30, |        | Nine Months<br>Ended<br>September 30, |         |
|--------------------------------------------------------------------|--------------------------------|--------|---------------------------------------|---------|
|                                                                    | 2016                           | 2015   | 2016                                  | 2015    |
| Segment operating income                                           | \$42.1                         | \$47.3 | \$172.1                               | \$142.8 |
| Impact to segment operating income of non-run-rate items:          |                                |        |                                       |         |
| Adjustments to plant-level LIFO <sup>1</sup>                       | (4.1 )                         | 2.6    | (2.2 )                                | 1.1     |
| Mark-to-market gain (loss) on derivative instruments               | 2.0                            | (1.7 ) | 16.9                                  | (7.7 )  |
| Non-cash lower of cost or market inventory write-down <sup>2</sup> | —                              | —      | (4.9 )                                | —       |
| Workers' compensation cost due to discounting                      | (0.1 )                         | (0.1 ) | —                                     | (0.2 )  |
| Asset impairment charges <sup>3</sup>                              | (2.7 )                         | —      | (2.8 )                                | —       |
| Environmental expenses <sup>4</sup>                                | —                              | —      | —                                     | (1.2 )  |
| Total non-run-rate items                                           | (4.9 )                         | 0.8    | 7.0                                   | (8.0 )  |
| Segment operating income excluding non-run-rate items              | \$47.0                         | \$46.5 | \$165.1                               | \$150.8 |

<sup>1</sup> We manage our Fabricated Products segment business on a monthly last-in, first-out ("LIFO") basis at each plant, but report inventory externally on an annual LIFO basis in accordance with GAAP on a consolidated basis. This amount represents the conversion from GAAP LIFO applied on a consolidated basis for the Fabricated Products segment to monthly LIFO applied on a plant-by-plant basis.

<sup>2</sup> The \$4.9 million lower of cost or market inventory write-down during the nine months ended September 30, 2016 was due primarily to a decrease in our net realizable value of inventory (less a normal profit margin).

<sup>3</sup> See Note 9 of Notes to Interim Consolidated Financial Statements included in this Report for additional information relating to the impairment of one of our customer relationship intangible assets.

<sup>4</sup> See Note 7 of Notes to Interim Consolidated Financial Statements included in this Report for additional information relating to the environmental expenses.

As noted above, segment operating income excluding non-run-rate items for the quarter ended September 30, 2016 was slightly higher than segment operating income excluding such items for the quarter ended September 30, 2015, reflecting improvement in controllable manufacturing conversion costs of \$6.3 million, mostly offset by: (i) a negative sales impact of \$1.7 million; (ii) a \$1.7 million increase in overhead cost due primarily to an increase in incentive compensation expense; (iii) higher major maintenance expense of \$1.5 million; and (iv) higher depreciation expense of \$0.9 million.

Segment operating income excluding non-run-rate items for the nine months ended September 30, 2016 was \$14.3 million higher than segment operating income excluding such items for the nine months ended September 30, 2015, reflecting: (i) a positive sales impact of \$18.6 million; (ii) improvement in controllable manufacturing conversion costs of \$10.7 million; and (iii) a \$2.4 million benefit from lower energy prices, partially offset by: (iv) a combined increase in overhead, benefits and incentive compensation expense of \$12.4 million; (iv) \$2.6 million of higher major maintenance expense; and (v) \$2.4 million of higher depreciation expense. The positive sales impact was due primarily to continued benefits of pricing improvements on some Aero/HS products and the benefit from lower contained metal prices on some high value added products.

The table below provides shipment and value added revenue information (in millions of dollars except shipments and value added revenue per pound) for each of the product categories (which are based on end market applications) of our Fabricated Products segment for each period presented:

|                                    | Quarter Ended<br>September 30,<br>2016 |         |          |         | 2015     |         |           |         | Nine Months Ended<br>September 30,<br>2016 |         |    |         | 2015  |         |  |  |
|------------------------------------|----------------------------------------|---------|----------|---------|----------|---------|-----------|---------|--------------------------------------------|---------|----|---------|-------|---------|--|--|
| Aero/HS Products:                  |                                        |         |          |         |          |         |           |         |                                            |         |    |         |       |         |  |  |
| Shipments (mmlbs)                  | 55.5                                   |         |          |         | 58.9     |         |           |         | 179.2                                      |         |    |         | 183.6 |         |  |  |
|                                    | \$                                     | \$ / lb | \$       | \$ / lb | \$       | \$ / lb | \$        | \$ / lb | \$                                         | \$ / lb | \$ | \$ / lb | \$    | \$ / lb |  |  |
| Net sales                          | \$156.1                                | \$2.81  | \$170.0  | \$2.89  | \$500.7  | \$2.79  | \$531.4   | \$2.89  |                                            |         |    |         |       |         |  |  |
| Less: Hedged Cost of Alloyed Metal | (47.5 )                                | (0.85 ) | (56.7 )  | (0.97 ) | (152.7 ) | (0.85 ) | (191.9 )  | (1.04 ) |                                            |         |    |         |       |         |  |  |
| Value added revenue                | \$108.6                                | \$1.96  | \$113.3  | \$1.92  | \$348.0  | \$1.94  | \$339.5   | \$1.85  |                                            |         |    |         |       |         |  |  |
| Automotive Extrusions:             |                                        |         |          |         |          |         |           |         |                                            |         |    |         |       |         |  |  |
| Shipments (mmlbs)                  | 22.6                                   |         |          |         | 24.3     |         |           |         | 70.8                                       |         |    |         | 70.8  |         |  |  |
|                                    | \$                                     | \$ / lb | \$       | \$ / lb | \$       | \$ / lb | \$        | \$ / lb | \$                                         | \$ / lb | \$ | \$ / lb | \$    | \$ / lb |  |  |
| Net sales                          | \$46.5                                 | \$2.06  | \$49.5   | \$2.04  | \$143.6  | \$2.03  | \$153.3   | \$2.17  |                                            |         |    |         |       |         |  |  |
| Less: Hedged Cost of Alloyed Metal | (18.9 )                                | (0.84 ) | (21.1 )  | (0.87 ) | (58.0 )  | (0.82 ) | (70.2 )   | (1.00 ) |                                            |         |    |         |       |         |  |  |
| Value added revenue                | \$27.6                                 | \$1.22  | \$28.4   | \$1.17  | \$85.6   | \$1.21  | \$83.1    | \$1.17  |                                            |         |    |         |       |         |  |  |
| GE Products:                       |                                        |         |          |         |          |         |           |         |                                            |         |    |         |       |         |  |  |
| Shipments (mmlbs)                  | 62.8                                   |         |          |         | 55.8     |         |           |         | 190.5                                      |         |    |         | 175.6 |         |  |  |
|                                    | \$                                     | \$ / lb | \$       | \$ / lb | \$       | \$ / lb | \$        | \$ / lb | \$                                         | \$ / lb | \$ | \$ / lb | \$    | \$ / lb |  |  |
| Net sales                          | \$105.6                                | \$1.68  | \$100.4  | \$1.80  | \$318.3  | \$1.67  | \$331.5   | \$1.89  |                                            |         |    |         |       |         |  |  |
| Less: Hedged Cost of Alloyed Metal | (52.6 )                                | (0.84 ) | (50.3 )  | (0.90 ) | (157.9 ) | (0.83 ) | (179.1 )  | (1.02 ) |                                            |         |    |         |       |         |  |  |
| Value added revenue                | \$53.0                                 | \$0.84  | \$50.1   | \$0.90  | \$160.4  | \$0.84  | \$152.4   | \$0.87  |                                            |         |    |         |       |         |  |  |
| Other Products:                    |                                        |         |          |         |          |         |           |         |                                            |         |    |         |       |         |  |  |
| Shipments (mmlbs)                  | 7.4                                    |         |          |         | 11.5     |         |           |         | 22.1                                       |         |    |         | 38.2  |         |  |  |
|                                    | \$                                     | \$ / lb | \$       | \$ / lb | \$       | \$ / lb | \$        | \$ / lb | \$                                         | \$ / lb | \$ | \$ / lb | \$    | \$ / lb |  |  |
| Net sales                          | \$12.4                                 | \$1.68  | \$16.5   | \$1.43  | \$36.1   | \$1.63  | \$59.1    | \$1.55  |                                            |         |    |         |       |         |  |  |
| Less: Hedged Cost of Alloyed Metal | (6.2 )                                 | (0.84 ) | (9.0 )   | (0.78 ) | (18.1 )  | (0.82 ) | (34.2 )   | (0.90 ) |                                            |         |    |         |       |         |  |  |
| Value added revenue                | \$6.2                                  | \$0.84  | \$7.5    | \$0.65  | \$18.0   | \$0.81  | \$24.9    | \$0.65  |                                            |         |    |         |       |         |  |  |
| Total:                             |                                        |         |          |         |          |         |           |         |                                            |         |    |         |       |         |  |  |
| Shipments (mmlbs)                  | 148.3                                  |         |          |         | 150.5    |         |           |         | 462.6                                      |         |    |         | 468.2 |         |  |  |
|                                    | \$                                     | \$ / lb | \$       | \$ / lb | \$       | \$ / lb | \$        | \$ / lb | \$                                         | \$ / lb | \$ | \$ / lb | \$    | \$ / lb |  |  |
| Net sales                          | \$320.6                                | \$2.16  | \$336.4  | \$2.24  | \$998.7  | \$2.16  | \$1,075.3 | \$2.30  |                                            |         |    |         |       |         |  |  |
| Less: Hedged Cost of Alloyed Metal | (125.2 )                               | (0.84 ) | (137.1 ) | (0.92 ) | (386.7 ) | (0.84 ) | (475.4 )  | (1.02 ) |                                            |         |    |         |       |         |  |  |
| Value added revenue                | \$195.4                                | \$1.32  | \$199.3  | \$1.32  | \$612.0  | \$1.32  | \$599.9   | \$1.28  |                                            |         |    |         |       |         |  |  |

For the quarter ended September 30, 2016, Net sales of Fabricated Products decreased by 5% to \$320.6 million, as compared to the quarter ended September 30, 2015, reflecting a 4% decrease in average realized sales price per pound and a 1% decrease in Fabricated Products segment shipment volume, as discussed in further detail above in "Consolidated Results of Operations."

For the nine months ended September 30, 2016, Net sales of Fabricated Products decreased by 7% to \$998.7 million as compared to the quarter ended September 30, 2015, due primarily to a 6% decrease in total average realized sales price per



pound and a 1% decrease in Fabricated Products segment shipment volume. See "Consolidated Results of Operations" above for further discussion.

#### Outlook

As we look to the fourth quarter of 2016, while we expect to benefit from delivery of a higher than normal amount of in-transit plate inventory produced in the third quarter, we also anticipate normal seasonal demand weakness and year-end uncertainty as well as increasing competitive price pressure on non-contract business orders for both general engineering plate and aerospace plate.

For full year 2016, we continue to anticipate approximately 5% year-over-year value added revenue growth for Aero/HS products. With recently announced fourth quarter automotive facility shutdowns as well as continued delays in the ramp-up of several new bumper programs, we are reducing our value added revenue growth outlook for Automotive Extrusions from 6% to approximately 2% year-over-year. We expect total value added revenue growth of approximately 3% to 4% year-over-year, with improvement in operating income (excluding non-run-rate items) and sales margin driven by sales growth and continued improvement in manufacturing efficiencies.

Looking to 2017 and beyond, we expect aerospace industry demand for 2017 will be down slightly from 2016 based on strong indications that destocking in the aerospace supply chain will occur in the coming year. We are already experiencing competitive price pressure on non-contract heat treat plate business, and our lead times for heat treat plate are currently down to six weeks compared to much longer lead times earlier in 2016. However, we anticipate the excess inventory in the supply chain will be largely reduced in 2017, returning to supply/demand equilibrium in 2018, and we anticipate that industry demand for our Aero/HS products will grow at a 5% compound annual growth rate from 2016 to 2019.

Our recently updated three-year automotive industry demand outlook is for average annual demand growth of 6% from 2016 to 2019 driven by increasing automotive aluminum extrusion content. In 2017, we anticipate double-digit value added revenue growth for our Automotive Extrusions as we launch new programs and existing programs continue to ramp up.

Looking beyond 2017, we continue to see strong secular growth for our Aero/HS products and Automotive Extrusions. In addition to capitalizing on these secular growth opportunities, we continue to benefit from investments we have made over the years to improve efficiency and overall throughput. We anticipate that the Trentwood modernization project that was announced in late 2015, along with other planned investments, will provide the next step in advancing our overall manufacturing efficiencies and product quality, further expanding our capacity and enhancing our competitive strength.

#### All Other

All Other provides support for our operations and incurs general and administrative expenses that are not allocated to the Fabricated Products segment. All Other is not considered a reportable segment. The table below presents the impact of non-run-rate items to operating loss within the All Other business unit for each period presented (in millions of dollars):

|                                                                     | Quarter Ended<br>September 30, |         | Nine Months<br>Ended<br>September 30, |           |
|---------------------------------------------------------------------|--------------------------------|---------|---------------------------------------|-----------|
|                                                                     | 2016                           | 2015    | 2016                                  | 2015      |
| Operating loss                                                      | \$(12.3)                       | \$(6.8) | \$(39.6)                              | \$(523.9) |
| Impact to operating loss of non-run-rate items:                     |                                |         |                                       |           |
| Net periodic post retirement benefit cost relating to Salaried VEBA | (0.8)                          | (0.6)   | (2.5)                                 | (1.8)     |
| Gain (loss) on removal of Union VEBA net assets <sup>1</sup>        | —                              | 2.9     | 0.1                                   | (490.9)   |
| Environmental expense                                               | —                              | 0.4     | —                                     | 0.4       |
| Total non-run-rate items                                            | (0.8)                          | 2.7     | (2.4)                                 | (492.3)   |
| Operating loss excluding non-run-rate items                         | \$(11.5)                       | \$(9.5) | \$(37.2)                              | \$(31.6)  |

<sup>1</sup> See Note 5 of Notes to Interim Consolidated Financial Statements included in this Report for additional information relating to the Union VEBA.

All Other operating loss excluding non-run-rate items for the quarter ended September 30, 2016 was \$2.0 million higher compared to the same period in 2015. The increase was due primarily to an increase of: (i) \$1.4 million in employee incentive

compensation expense due to improved performance measures for short-term incentives and the shift to total shareholder return performance awards beginning in 2014 and (ii) \$0.8 million in deferred compensation expense, partially offset by a \$0.3 million decrease in other general and administrative expenses.

All Other operating loss excluding non-run-rate items for the nine months ended September 30, 2016 was \$5.6 million higher than the comparable period in 2015 due primarily to: (i) an increase of \$4.0 million in employee incentive compensation expense and (ii) a combined increase in deferred compensation, workers' compensation, environmental costs and salaries and benefits of approximately \$1.4 million.

#### Liquidity and Capital Resources

##### Summary

The following table summarizes our liquidity at the dates presented (in millions of dollars):

|                                                                                    | September 30, 2016 | December 31, 2015 |
|------------------------------------------------------------------------------------|--------------------|-------------------|
| Available cash and cash equivalents                                                | \$ 72.9            | \$ 72.5           |
| Short-term investments                                                             | 201.0              | 30.0              |
| Net borrowing availability under Revolving Credit Facility after letters of credit | 280.3              | 280.8             |
| Total liquidity                                                                    | \$ 554.2           | \$ 383.3          |

Cash equivalents consist primarily of money market accounts and investments with an original maturity of 90 days or less when purchased. We place our cash in bank deposits and money market funds with high credit quality financial institutions, which invest primarily in commercial paper and time deposits of prime quality, short-term repurchase agreements and U.S. government agency notes. Short-term investments represent holdings in investment-grade commercial paper and corporate bonds with an original maturity of greater than 90 days.

In addition to our unrestricted cash and cash equivalents described above, we have restricted cash that is pledged or held as collateral in connection with workers' compensation requirements and certain other agreements. From time to time, such restricted funds could be returned to us or we could be required to pledge additional cash (see Note 2 of Notes to Interim Consolidated Financial Statements included in this Report).

We and certain of our subsidiaries have a credit agreement with JPMorgan Chase Bank, N.A., as administrative agent, and the other financial institutions party thereto ("Revolving Credit Facility") (see Note 3 of Notes to Interim Consolidated Financial Statements included in this Report). There were no borrowings under our Revolving Credit Facility as of September 30, 2016, or as of December 31, 2015.

## Cash Flows

The following table summarizes our cash flows from operating, investing and financing activities for each period presented (in millions of dollars):

|                                                       | Nine Months<br>Ended<br>September 30,<br>2016      2015 |           |
|-------------------------------------------------------|---------------------------------------------------------|-----------|
| Total cash provided by (used in):                     |                                                         |           |
| Operating activities:                                 |                                                         |           |
| Fabricated Products                                   | \$158.7                                                 | \$160.4   |
| All Other                                             | (52.1 )                                                 | (51.5 )   |
| Total cash provided by operating activities           | \$106.6                                                 | \$108.9   |
| Investing activities:                                 |                                                         |           |
| Fabricated Products                                   | \$(57.2 )                                               | \$(37.8 ) |
| All Other                                             | (171.3 )                                                | 82.9      |
| Total cash (used in) provided by investing activities | \$(228.5)                                               | \$45.1    |
| Financing activities:                                 |                                                         |           |
| Fabricated Products                                   | \$(0.1 )                                                | —         |
| All Other                                             | 122.4                                                   | (249.1 )  |
| Total cash provided by (used in) financing activities | \$122.3                                                 | \$(249.1) |
| Operating Activities                                  |                                                         |           |

Fabricated Products – For the nine months ended September 30, 2016, Fabricated Products segment operating activities provided \$158.7 million of cash. Cash provided in the nine months ended September 30, 2016 was primarily related to: (i) \$172.1 million of operating income; (ii) adjustments for non-cash items and depreciation and amortization of \$12.8 million; (iii) a lower of cost or market inventory write-down of \$4.9 million; and (iv) a net increase in other operating assets and liabilities of \$2.0 million. Cash provided by operating activities was partially offset by: (i) an increase in accounts receivable of \$26.6 million due primarily to the timing of sales and increase in metal price and (ii) an increase in inventory of \$8.9 million.

Fabricated Products segment operating activities provided \$160.4 million of cash during the nine months ended September 30, 2015. Cash provided in the nine months ended September 30, 2015 was primarily related to: (i) \$142.8 million of operating income and (ii) adjustments for non-cash items and depreciation and amortization of \$34.3 million, partially offset by: (iii) an increase in inventory of \$2.6 million due primarily to increased shipment volume and (iv) a decrease in accounts payable of \$13.9 million due to the timing of payments and decreasing price of aluminum.

For additional information regarding Fabricated Products operating income excluding non-run-rate items, see "Results of Operations – Segment and Business Unit Information" above.

All Other – Cash used in operating activities of \$52.1 million during the nine months ended September 30, 2016 consisted primarily of payments relating to: (i) general and administrative costs of \$19.9 million; (ii) an annual variable cash contribution to the VEBAs of \$19.5 million with respect to the 2015 year; (iii) our short-term incentive program in the amount of \$3.6 million; and (iv) interest on the 5.875% and 8.25% Senior Notes and Revolving Credit Facility of \$9.1 million.

Cash used in operating activities of \$51.5 million during the nine months ended September 30, 2015 consisted primarily of payments relating to: (i) general and administrative costs of \$20.9 million; (ii) an annual variable cash contribution to the VEBAs of \$13.7 million with respect to the 2014 year; (iii) our short-term incentive program in the amount of \$3.4 million; and (iv) interest on the Convertible Notes, Senior Notes and Revolving Credit Facility of \$13.5 million.



### Investing Activities

Fabricated Products – Cash used in investing activities for the Fabricated Products segment during the nine months ended September 30, 2016 was \$57.2 million, compared to \$37.8 million of cash used during the nine months ended September 30, 2015. Cash used during the nine months ended September 30, 2016 and September 30, 2015 was related to capital expenditures.

All Other – Cash used in investing activities for All Other was \$171.3 million during the nine months ended September 30, 2016 and primarily consisted of purchases of available for sale securities of \$200.9 million and capital expenditures of \$0.4 million offset by proceeds from the disposition of available for sale securities of \$30.0 million. Cash provided by investing activities for All Other during the nine months ended September 30, 2015 was \$82.9 million and primarily consisted of proceeds from the disposition of available for sale securities. A portion of the proceeds was used to settle the Convertible Notes on April 1, 2015.

### Financing Activities

Fabricated Products – Cash used in financing activities was insignificant during the nine months ended September 30, 2016 and September 30, 2015.

All Other – Cash provided by financing activities during the nine months ended September 30, 2016 was \$122.4 million, representing \$375.0 million in proceeds from the issuance of our 5.875% Senior Notes and \$1.0 million in proceeds from the exercise of stock options, partially offset by: (i) \$206.0 million for the repayment of the 8.25% Senior Notes; (ii) \$24.4 million of cash dividends paid to our stockholders, including holders of restricted stock, and dividend equivalents paid to holders of certain restricted stock units and to holders of performance shares granted prior to 2014, with respect to the target number of underlying shares of common stock (constituting approximately one-half of the maximum payout); (iii) \$13.6 million of cash used to repurchase our common stock under our stock repurchase program; (iv) \$6.8 million of debt issuance costs; and (v) \$2.8 million of cash used to repurchase our common stock to satisfy withholding taxes resulting from the vesting of employee restricted stock, restricted stock units and performance shares.

Cash used in financing activities during the nine months ended September 30, 2015 was \$249.1 million, representing: (i) net cash outlay of \$175.0 million to settle the Convertible Notes; (ii) \$45.1 million of cash used to repurchase our common stock under our stock repurchase program; (iii) \$21.0 million of cash dividends paid to our stockholders, including holders of restricted stock, and dividend equivalents paid to holders of certain restricted stock units and to holders of performance shares granted prior to 2014, with respect to the target number of underlying shares of common stock (constituting approximately one-half of the maximum payout); (iv) \$3.0 million of cash used to repurchase our common stock to satisfy withholding taxes resulting from the vesting of employee restricted stock, restricted stock units and performance shares; (v) a repurchase of \$6.1 million of our Senior Notes, partially offset by: (vi) \$1.1 million of additional tax benefit in connection with the vesting of employee non-vested shares, restricted stock units and performance shares.

### Sources of Liquidity

We believe our available cash and cash equivalents, short-term investments, borrowing availability under the Revolving Credit Facility and funds generated from operations are our most significant sources of liquidity. We believe these sources will be sufficient to finance our cash requirements and our planned capital expenditures and investments for at least the next 12 months. Nevertheless, our ability to fund our working capital requirements, debt service obligations, the full amount of any variable cash contribution to the VEBAs and planned capital expenditures and investments will depend upon our future operating performance (which will be affected by prevailing economic conditions) and financial, business and other factors, some of which are beyond our control.

The Revolving Credit Facility matures in December 2020 and provides for borrowings up to \$300.0 million (subject to borrowing base limitations).

The table below summarizes recent availability and usage of our Revolving Credit Facility (in millions of dollars except for borrowing rate):

|                                                                     | October 17, September 30, |          |
|---------------------------------------------------------------------|---------------------------|----------|
|                                                                     | 2016                      | 2016     |
| Revolving Credit Facility borrowing commitment                      | \$ 300.0                  | \$ 300.0 |
| Borrowing base availability                                         | \$ 289.5                  | \$ 287.6 |
| Less: Outstanding borrowings under Revolving Credit Facility        | —                         | —        |
| Less: Outstanding letters of credit under Revolving Credit Facility | (7.3 )                    | (7.3 )   |
| Net remaining borrowing availability                                | \$ 282.2                  | \$ 280.3 |
| Borrowing rate (if applicable) <sup>1</sup>                         | 3.75 %                    | 3.75 %   |

<sup>1</sup> Such borrowing rate, if applicable, represents the interest rate for any overnight borrowings under the Revolving Credit Facility.

We do not believe that covenants contained in the Revolving Credit Facility are reasonably likely to limit our ability to raise additional debt or equity should we choose to do so during the next 12 months, nor do we believe it is likely that during the next 12 months we will trigger the availability threshold that would require measuring and maintaining a fixed charge coverage ratio.

See Note 3 of Notes to Consolidated Financial Statements included in our Annual Report on Form 10-K for the year ended December 31, 2015 for information regarding our Revolving Credit Facility.

#### Debt

Mandatory principal and cash interest payments on the outstanding borrowings under the 5.875% Senior Notes assuming no early redemptions thereof are as follows (in millions of dollars) for each of the periods ending December 31 (see Note 3 of Notes to Interim Consolidated Financial Statements included in this Report for further details on the 5.875% Senior Notes):

|                                  | Payments Due by Period |                   |        |        |        |        |                     |
|----------------------------------|------------------------|-------------------|--------|--------|--------|--------|---------------------|
|                                  | Total                  | Remainder of 2016 | 2017   | 2018   | 2019   | 2020   | 2021 and Thereafter |
| Interest on 5.875% Senior Notes  | \$176.5                | \$11.3            | \$22.0 | \$22.0 | \$22.0 | \$22.0 | \$ 77.2             |
| Principal on 5.875% Senior Notes | \$375.0                | \$—               | \$—    | \$—    | \$—    | \$—    | \$ 375.0            |
| Total                            | \$551.5                | \$11.3            | \$22.0 | \$22.0 | \$22.0 | \$22.0 | \$ 452.2            |

See "Contractual Obligations, Commercial Commitments and Off-Balance Sheet and Other Arrangements – Contractual Obligations and Commercial Commitments" included in Part II, Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations" in our Annual Report on Form 10-K for the year ended December 31, 2015 for commitment fees on the Revolving Credit Facility.

We do not believe that covenants in the indenture governing the 5.875% Senior Notes are reasonably likely to limit our ability to obtain additional debt or equity financing should we choose to do so during the next 12 months.

### Capital Expenditures and Investments

The most significant component of our capital expenditure program is a multi-year, \$150.0 million capital investment project at our Trentwood facility focused on: (i) equipment upgrades throughout the process flow to reduce conversion costs and increase efficiency; (ii) modernizing our legacy equipment and process flow for thin gauge plate to achieve KaiserSelect® quality enhancements for these aerospace and general engineering products; and (iii) the further expansion of Trentwood's manufacturing capacity. The project was announced in 2015, represented a significant portion of our capital expenditures during the first nine months of 2016 and will begin to provide efficiency and capacity improvements during the next 18 months.

Total capital expenditures were \$57.4 million and \$38.4 million for the nine months ended September 30, 2016 and September 30, 2015, respectively. For the full year of 2016, we anticipate capital spending will total approximately \$80.0 million for purposes of: (i) continued spending on the \$150.0 million modernization project at our Trentwood facility; (ii) continuing our capacity expansions at several of our extrusion facilities to support new automotive programs that will launch over the next few years; (iii) other manufacturing cost efficiency and quality initiatives; and (iv) sustaining capital spending. Capital investment will be funded using cash generated from operations, available cash and cash equivalents, short-term investments, borrowings under the Revolving Credit Facility and/or other third-party financing arrangements. The level of anticipated capital expenditures may be adjusted from time to time depending on our business plans, our price outlook for fabricated aluminum products, our ability to maintain adequate liquidity and other factors. No assurance can be provided as to the timing of any such expenditures or the operational benefits expected therefrom.

### Dividends

See Note 10 and Note 16 of Notes to Interim Consolidated Financial Statements included in this Report for information regarding dividends paid during the nine months ended September 30, 2016 and September 30, 2015, and declared subsequent to September 30, 2016.

The future declaration and payment of dividends, if any, will be at the discretion of our Board of Directors and will depend on a number of factors, including our financial and operating results, financial condition and anticipated cash requirements and covenants contained in the Revolving Credit Facility, the indenture for our 5.875% Senior Notes, or other indebtedness we may incur in the future. We can give no assurance that dividends will be declared and paid in the future. See Note 3 of Notes to Consolidated Financial Statements included in our Annual Report on Form 10-K for the year ended December 31, 2015 for additional information about restrictions on dividend payments contained in the Revolving Credit Facility. See Note 3 of Notes to Interim Consolidated Financial Statements included in this Report for information regarding restrictions on dividend payments contained in the indenture for our 5.875% Senior Notes.

### Repurchases of Common Stock

See Note 10 of Notes to Interim Consolidated Financial Statements included in this Report for information regarding repurchases of common stock made during the nine months ended September 30, 2016 and September 30, 2015 and the amounts authorized and available for future repurchases of common stock under our stock repurchase program. See Note 6 of Notes to Interim Consolidated Financial Statements included in this Report for information regarding minimum statutory tax withholding obligations arising during the nine months ended September 30, 2016 and September 30, 2015 in connection with the vesting of non-vested shares, restricted stock units and performance shares.

### Restrictions Related to Equity Capital

On May 26, 2016, we amended our certificate of incorporation to extend the restrictions on the transfer of our common shares to reduce the risk that an ownership change within the criteria under Section 382 of the Internal Revenue Code of 1986 would jeopardize our ability to fully use our federal income tax attributes. These transfer restrictions will expire in accordance with their terms on May 26, 2019.

In addition, on April 7, 2016, our Board of Directors adopted the Tax Asset Rights Plan and declared a dividend of one preferred share purchase right ("Right") for each outstanding share of our common stock. Our stockholders approved the Tax Asset Rights Plan at our 2016 Annual Meeting of Stockholders on May 26, 2016. See Note 4 of Notes to Interim Consolidated Financial Statements included in this Report for more information regarding the Tax Asset Rights Plan and the Rights.



#### Environmental Commitments and Contingencies

See Note 7 of Notes to Interim Consolidated Financial Statements included in this Report for information regarding our environmental commitments and contingencies.

#### Contractual Obligations, Commercial Commitments and Off-Balance Sheet and Other Arrangements

In May 2016, we issued \$375.0 million principal amount of 5.875% Senior Notes. See "Liquidity and Capital Resources – Debt" above for contractual principal and interest payments in future years.

During the nine months ended September 30, 2016, we granted additional stock-based awards to certain members of management and our non-employee directors under our equity incentive plans (see Note 6 of Notes to Interim Consolidated Financial Statements included in this Report). Additional awards are expected to be made in future years.

In accordance with our funding obligation to the VEBAs (see Note 5 of Notes to Interim Consolidated Financial Statements included in this Report), we paid \$19.5 million to the VEBAs during the first quarter of 2016 with respect to 2015.

See Note 7 of Notes to Interim Consolidated Financial Statements included in this Report for more information on purchase obligations we incurred during the nine months ended September 30, 2016.

With the exception of the above-mentioned transactions and as otherwise disclosed herein, there has been no material change in our contractual obligations, commercial commitments, off-balance sheet or other arrangements other than in the ordinary course of business since December 31, 2015.

#### Critical Accounting Estimates and Policies

Our consolidated financial statements are prepared in accordance with GAAP. In connection with the preparation of our financial statements, we are required to make assumptions and estimates about future events and apply judgments that affect the reported amounts of assets, liabilities, revenue and expenses and the related disclosures. We base our assumptions, estimates and judgments on historical experience, current trends and other factors that management believes to be relevant at the time our consolidated financial statements are prepared. On a regular basis, management reviews the accounting policies, assumptions, estimates and judgments to ensure that our financial statements are presented fairly and in accordance with GAAP. However, because future events and their effects cannot be determined with certainty, actual results could differ from our assumptions and estimates and such differences could be material. Our significant accounting policies are discussed in Note 1 of Notes to Consolidated Financial Statements included in our Annual Report on Form 10-K for the year ended December 31, 2015 and Note 1 of Notes to Interim Consolidated Financial Statements included in this Report. We discuss our critical accounting estimates in Part II, Item 7.

"Management's Discussion and Analysis of Financial Condition and Results of Operations" of our Annual Report on Form 10-K for the year ended December 31, 2015. There has been no material change in our critical accounting estimates and policies since December 31, 2015.

#### New Accounting Pronouncements

For a discussion of all recently adopted and recently issued but not yet adopted accounting pronouncements, see "New Accounting Pronouncements" in Note 1 of Notes to Interim Consolidated Financial Statements included in this Report.

#### Available Information

Our website is located at [www.kaiseraluminum.com](http://www.kaiseraluminum.com). The website includes a section for investor relations under which we provide notifications of news or announcements regarding our financial performance, including Securities and Exchange Commission ("SEC") filings, investor events and press and earnings releases. In addition, all Kaiser Aluminum Corporation filings submitted to the SEC, including our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and Proxy Statements for our annual meeting of stockholders, as well as other Kaiser Aluminum Corporation reports and statements, are available on the SEC's web site at [www.sec.gov](http://www.sec.gov). Such filings are also available for download free of charge on our website. In addition, we provide and archive on our website webcasts of our quarterly earnings calls and certain events in which management participates or hosts with members of the investment community, and related investor presentations. The contents of the website are not intended to be incorporated by reference into this Report or any other report or document filed by us, and any reference to the websites are intended to be inactive textual references only.



### Item 3. Quantitative and Qualitative Disclosures About Market Risk

Our operating results are sensitive to changes in the prices of primary aluminum and fabricated aluminum products and also depend to a significant degree upon the volume and mix of all products sold. As discussed more fully in Note 8 of Notes to Interim Consolidated Financial Statements included in this Report, we have historically utilized hedging transactions to lock in a specified price or range of prices for certain products that we sell or consume in our production process and to mitigate our exposure to changes in energy prices and foreign currency exchange rates.

#### Aluminum

See Note 8 of Notes to Interim Consolidated Financial Statements included in this Report, under "Hedges of Operational Risk" for a discussion of our pricing of fabricated aluminum, firm-price arrangements and third-party hedging instruments.

During the nine months ended September 30, 2016 and September 30, 2015, settlements of derivative contracts covering 163.6 million pounds and 148.6 million pounds, respectively, hedged Fabricated Products shipments sold on pricing terms that created metal price risk for us. At September 30, 2016, we had derivative contracts with respect to approximately 47.4 million pounds, 93.7 million pounds and 17.3 million pounds to hedge sales to be made in 2016, 2017 and 2018, respectively, on pricing terms that create metal price risk for us.

Based on the aluminum derivative positions held by us to hedge firm-price customer sales agreements, we estimate that a \$0.10 per pound decrease in the London Metal Exchange market price of aluminum, with all other variables held constant, would have resulted in an unrealized mark-to-market loss of \$15.8 million and \$12.9 million on September 30, 2016 and December 31, 2015, respectively, with corresponding changes to the net fair value of our aluminum derivative positions. Additionally, we estimate that a \$0.01 per pound decrease in the Midwest premium for aluminum, with all other variables held constant, would have resulted in an unrealized mark-to-market loss of \$1.5 million and \$0.8 million on September 30, 2016 and December 31, 2015, respectively. The balances of such financial instruments may change in future periods, and therefore the amounts discussed above may not be indicative of future results.

If we encounter reductions in the price of aluminum and/or if we encounter a decrease in our net realizable value of inventory, we may be subject to additional inventory lower of cost or market value adjustments.

#### Energy

We are exposed to energy price risk from fluctuating prices for natural gas and electricity. We estimate that, before consideration of any hedging activities and the potential to pass through higher natural gas and electricity prices to customers, each \$1.00 change in natural gas prices (per mmbtu) and electricity prices (per mwh) would impact our 2016 annual operating costs by approximately \$1.1 million and \$0.1 million, respectively. We, from time to time, in the ordinary course of business, enter into hedging transactions and/or physical delivery commitments with firm prices with third parties to mitigate our risk from fluctuations in natural gas and electricity prices.

As of September 30, 2016, we had derivative and/or physical delivery commitments with energy companies in place to cover our exposure to fluctuations in natural gas prices for approximately 80%, 74%, 73% and 33% of the expected natural gas purchases for the remainder of 2016, 2017, 2018 and 2019 respectively. We estimate that a \$1.00 per mmbtu decrease in natural gas prices would have resulted in an unrealized mark-to-market loss of \$5.6 million and \$7.0 million on September 30, 2016 and December 31, 2015, respectively, with corresponding changes to the net fair value of our natural gas derivative positions.

Additionally, as of September 30, 2016, we had physical delivery commitments with firm prices covering approximately 55%, 54%, 54% and 18% of the expected electricity purchases for the remainder of 2016, 2017, 2018 and 2019 respectively.

The balances of such financial instruments and/or physical delivery commitments for hedging of natural gas and electricity may change in future periods, and therefore the amounts discussed above may not be indicative of future results.

#### Foreign Currency

As of September 30, 2016, we had cash commitments outstanding for equipment purchases denominated in euros, of which we have hedged our exposure to currency exchange rate fluctuations by entering into foreign currency forward contracts with settlement dates designed to line up with the timing of scheduled payments to the foreign equipment manufacturers. These derivative instruments are designated and qualify as cash flow hedges, therefore periodic gain and loss related to market value adjustments are deferred in Accumulated other comprehensive loss until depreciation on the underlying equipment commences. See Note 8 of Notes to Interim Consolidated Financial Statements included in this Report for additional information relating to these foreign currency forward contracts. As of September 30, 2016, we hedged our equipment purchase transactions denominated in euros using forward contracts with settlement dates through August 2017. We estimate that a 10% decrease in the September 30, 2016 exchange rate of euros to US dollars would have resulted in an unrealized mark-to-market loss of \$0.2 million as of September 30, 2016.

Other than the cash flow hedges discussed above, there have been no other changes or developments that would materially affect the foreign currency risk assessment performed as of September 30, 2016.

#### Item 4. Controls and Procedures

**Evaluation of Disclosure Controls and Procedures.** We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our reports under the Securities Exchange Act of 1934 is processed, recorded, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms and that such information is accumulated and communicated to management, including the principal executive officer and principal financial officer, to allow for timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management is required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures. An evaluation of the effectiveness of the design and operation of our disclosure controls and procedures was performed as of the end of the period covered by this Report under the supervision of and with the participation of our management, including the principal executive officer and principal financial officer. Based on that evaluation, our principal executive officer and principal financial officer concluded that our disclosure controls and procedures were effective as of September 30, 2016 at the reasonable assurance level.

**Changes in Internal Control Over Financial Reporting.** We had no changes in our internal control over financial reporting during the nine months ended September 30, 2016 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

---

## PART II – OTHER INFORMATION

### Item 1. Legal Proceedings

Reference is made to Part I, Item 3. "Legal Proceedings" included in our Annual Report on Form 10-K for the year ended December 31, 2015 for information concerning material legal proceedings with respect to the Company. There have been no material developments since December 31, 2015.

### Item 1A. Risk Factors

Reference is made to Part I, Item 1A. "Risk Factors" included in our Annual Report on Form 10-K for the year ended December 31, 2015 for information concerning risk factors. In connection with the issuance of our 5.875% Senior Notes, repayment of our 8.25% Senior Notes, the adoption of the Tax Asset Rights Plan and the amendment of our certificate of incorporation, certain risk factors included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2015 have changed.

The following risk factors included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2015 have changed and are amended in their entirety below:

- "Covenants and events of default in our debt instruments could limit our ability to undertake certain types of transactions and adversely affect our liquidity."

- "Restrictive covenants in our debt instruments contain significant qualifications and exceptions."

- "Servicing our debt requires a significant amount of cash and we may not have sufficient cash flow from our business to pay our debt."

- "We are a holding company and depend on our subsidiaries for cash to meet our obligations and pay any dividends."

- "We may not be able to utilize all of our net operating loss carryforwards."

- "The rights plan and transfer restrictions implemented by us to protect our tax attributes could hinder the market for our common stock."

- "The transfer restrictions implemented by us to protect our tax attributes may void transactions in our common stock effected by 5% stockholders."

- "We could engage in or approve transactions involving our common shares that adversely affect significant stockholders."

- "Delaware law and our governing documents may impede or discourage a takeover, which could adversely affect the value of our common stock."

### Amended Risk Factors

Covenants and events of default in our debt instruments could limit our ability to undertake certain types of transactions and adversely affect our liquidity.

Our revolving credit facility and the indenture governing our 5.875% Senior Notes contain a number of restrictive covenants that impose operating and financial restrictions on us and may limit our ability to engage in acts that may be in our long-term best interest, including restrictions on our ability to:

- incur additional indebtedness and guarantee indebtedness;
- pay dividends or make other distributions or repurchase or redeem capital stock;
- prepay, redeem or repurchase certain debt;
- issue certain preferred stock or similar equity securities;
- make loans and investments;

- sell assets;
- incur liens;
- enter into transactions with affiliates;
- alter the businesses we conduct;
- enter into agreements restricting our subsidiaries' ability to pay dividends; and
- consolidate, merge or sell all or substantially all of our assets.

In addition, restrictive covenants in our revolving credit facility require us in certain circumstances to maintain specified financial ratios and satisfy other financial condition tests. Our ability to meet those financial ratios and tests can be affected by events beyond our control and we may be unable to meet them.

A breach of the covenants or restrictions under our revolving credit facility or under the indenture governing the 5.875% Senior Notes could result in an event of default under the applicable indebtedness. Such a default may allow the creditors to accelerate the related debt. A payment default or an acceleration following an event of default under our revolving credit facility or our indenture for our 5.875% Senior Notes could trigger an event of default under the other indebtedness obligation as well as any other debt to which a cross-acceleration or cross-default provision applies, which could result in the principal of and the accrued and unpaid interest on all such debt becoming due and payable. In addition, an event of default under our revolving credit facility could permit the lenders under our revolving credit facility to terminate all commitments to extend further credit under that facility. Furthermore, if we were unable to repay any amounts due and payable under our revolving credit facility, those lenders could proceed against the collateral granted to them to secure that indebtedness. In the event our lenders or noteholders accelerate the repayment of our borrowings, we and our subsidiaries may not have sufficient assets to repay that indebtedness. As a result of these restrictions, we may be:

- limited in how we conduct our business and grow in accordance with our strategy;
- unable to raise additional debt or equity financing to operate during general economic or business downturns; or
- unable to compete effectively or to take advantage of new business opportunities.

In addition, our financial results, our level of indebtedness and our credit ratings could adversely affect the availability and terms of any additional or replacement financing.

More detailed descriptions of our revolving credit facility and the indenture governing our 5.875% Senior Notes are included in filings made by us with the Securities and Exchange Commission, along with the documents themselves, which provide the full text of these covenants.

Restrictive covenants in our debt instruments contain significant qualifications and exceptions.

While our revolving credit facility and the indenture governing the 5.875% Senior Notes place limitations on our ability to pay dividends or make other distributions, repurchase or redeem capital stock, make loans and investments and incur additional indebtedness, investors should be aware that these limitations are subject to significant qualifications and exceptions. The aggregate amount of payments made in compliance with these limitations could be substantial.

As indicated above, more detailed descriptions of our revolving credit facility and the indenture governing our 5.875% Senior Notes are included in filings made by us with the Securities and Exchange Commission, along with the documents themselves, which provide the full text of these covenants.

Servicing our debt requires a significant amount of cash and we may not have sufficient cash flow from our business to pay our debt.

Our ability to make scheduled payments of the principal of, to pay interest on or to refinance our debt obligations depends on our financial condition and operating performance, which are subject to prevailing economic and competitive conditions and to certain financial, business, legislative, regulatory and other factors beyond our control. We may be unable to maintain a level of cash flows from operating activities sufficient to permit us to pay the principal, premium, if any and interest on our indebtedness.

If our cash flows and capital resources are insufficient to fund our debt service obligations, we could face substantial liquidity problems and could be forced to reduce or delay investments and capital expenditures or to dispose of material assets or operations, seek additional debt or equity capital or restructure or refinance our indebtedness. We may not be able to effect any such alternative measures, if necessary, on commercially reasonable terms or at all and, even if successful, those alternative actions may not allow us to meet our scheduled debt service obligations. Our revolving credit facility and the indenture governing the 5.875% Senior Notes restrict our ability to dispose of assets and use the proceeds from those dispositions and may also restrict our ability to raise debt or certain forms of equity capital to be used to repay other indebtedness when it becomes due. We may not be able to consummate asset dispositions or to obtain proceeds in an amount sufficient to meet any debt service obligations then due.

If we cannot make scheduled payments on our debt, we will be in default and holders of the 5.875% Senior Notes could declare all outstanding principal and interest to be due and payable, the lenders under our revolving credit facility could terminate their commitments to loan money, the lenders could foreclose against the assets securing their borrowings and we could be forced into bankruptcy or liquidation.

We are a holding company and depend on our subsidiaries for cash to meet our obligations and pay any dividends.

We are a holding company and conduct all of our operations through our subsidiaries, certain of which are not guarantors of our 5.875% Senior Notes or our other indebtedness. Accordingly, repayment of our indebtedness, including the 5.875% Senior Notes, is dependent on the generation of cash flow by our subsidiaries and their ability to make such cash available to us, by dividend, debt repayment or otherwise. Unless they are guarantors of the 5.875% Senior Notes or other indebtedness, our subsidiaries do not have any obligation to pay amounts due on the 5.875% Senior Notes or other indebtedness or to make funds available for that purpose. Our subsidiaries may not be able to, or may not be permitted to, make distributions to enable us to make payments in respect of our indebtedness, including the 5.875% Senior Notes. Each of our subsidiaries is a distinct legal entity and, under certain circumstances, legal and contractual restrictions may limit our ability to obtain cash from our subsidiaries. While our revolving credit facility and the indenture governing the 5.875% Senior Notes limit the ability of our subsidiaries to incur consensual restrictions on their ability to pay dividends or make other intercompany payments to us, these limitations are subject to qualifications and exceptions. In the event that we do not receive distributions from our subsidiaries, we may be unable to make required principal and interest payments on our indebtedness, including the 5.875% Senior Notes. Our inability to generate sufficient cash flows to satisfy our debt obligations, or to refinance our indebtedness on commercially reasonable terms or at all, would materially and adversely affect our financial position and results of operations.

We may not be able to utilize all of our net operating loss carryforwards.

We have net operating loss carryforwards and other significant U.S. tax attributes that we believe could offset otherwise taxable income in the United States. The net operating loss carryforwards available in any year to offset our net taxable income will be reduced following a more than 50% change in ownership during any period of 36 consecutive months ("ownership change") as determined under the Internal Revenue Code of 1986 ("Code"). On April 7, 2016, we adopted a tax asset protection rights plan ("Tax Asset Rights Plan") designed to preserve our ability to fully utilize our net operating loss carryforwards and other significant tax attributes to offset future taxable income. At the 2016 annual meeting of our stockholders held on May 26, 2016, our stockholders ratified the adoption of the Tax Asset Rights Plan, which will expire on April 7, 2019, and approved an amendment to our certificate of incorporation to implement stock transfer restrictions ("Successor Transfer Restrictions") to replace transfer restrictions that would have expired on July 6, 2016. As a result of the amendment to our certificate of incorporation, our certificate of incorporation continues to contain transfer restrictions that prohibit and void certain transfers of our common stock in order to reduce the risk that an ownership change will jeopardize our net operating loss carryforwards and other tax attributes. Neither the Tax Asset Rights Plan nor the Successor Transfer Restrictions, however, completely protects our net operating loss carryforwards and other valuable tax attributes and an ownership change could still occur. Because U.S. tax law limits the time during which carryforwards may be applied against future taxes, we may not be able to take full advantage of the carryforwards for federal income tax purposes. In addition, federal and state tax laws pertaining to net operating loss carryforwards may be changed from time to time such that the net operating loss carryforwards may be reduced or eliminated. If the net operating loss carryforwards become unavailable to us or are

fully utilized, our future income will not be shielded from federal and state income taxation and the funds otherwise available for general corporate purposes would be reduced.

The rights plan and transfer restrictions implemented by us to protect our tax attributes could hinder the market for our common stock.

In order to reduce the risk that an ownership change would jeopardize the preservation of our U.S. federal income tax attributes, including net operating loss carryforwards, for purposes of Sections 382 and 383 of the Code, we adopted the Tax Asset Rights Plan and implemented the Successor Transfer Restrictions as discussed above. Like the previous transfer restrictions contained in our certificate of incorporation, the Tax Asset Rights Plan and the Successor Transfer Restrictions may make our stock less attractive to large institutional holders, discourage potential acquirers from attempting to take over our company, limit the price that investors might be willing to pay for shares of our common stock and otherwise hinder the market for our common stock.

The transfer restrictions implemented by us to protect our tax attributes may void transactions in our common stock effected by 5% stockholders.

The Successor Transfer Restrictions in our certificate of incorporation restrict the transfer of our equity securities if, as a result of the transfer, either any person would become the owner of 4.99% or more of our stock as determined under Section 382 of the Code ("5% stockholder") or the percentage stock ownership of any 5% stockholder would be increased. The Successor Transfer Restrictions are subject to exceptions set forth in our certificate of incorporation and will expire in accordance with their terms on May 26, 2019. Any transfer that violates the Successor Transfer Restrictions is void and will be unwound as provided in our certificate of incorporation.

We could engage in or approve transactions involving our common shares that adversely affect significant stockholders.

Under the Successor Transfer Restrictions in our certificate of incorporation, prior to May 26, 2019, our 5% stockholders are, in effect, required, and under the Rights Plan, prior to April 7, 2019, encouraged, to seek the approval of, or a determination by, our Board of Directors before they engage in certain transactions involving our common stock. We could engage in or approve transactions involving our common stock that limit our ability to approve future transactions involving our common stock by our 5% stockholders without impairing the use of our federal income tax attributes. In addition, we could engage in or approve transactions involving our common stock that cause stockholders owning less than 5% to become 5% stockholders, resulting in those stockholders' having to seek the approval of, or a determination by, our Board of Directors before they could engage in certain future transactions involving our common stock. For example, share repurchases reduce the number of our common shares outstanding and could cause a stockholder holding less than 5% to become a 5% stockholder even though it has not acquired any additional shares.

Payment of dividends may not continue in the future and our payment of dividends and stock repurchases are subject to restriction.

Our Board of Directors has declared a cash dividend for each quarter since the summer of 2007. In addition, our Board of Directors has authorized a stock repurchase program. The future declaration and payment of dividends and the ongoing purchase of our shares, if any, will be at the discretion of the Board of Directors and will depend on a number of factors, including our financial and operating results, financial position and anticipated cash requirements. We can give no assurance that dividends will be declared and paid or that dividends will not be reduced in the future. Additionally, our revolving credit facility and the indenture for our 5.875% Senior Notes impose limitations on our ability to pay dividends and repurchase our common shares.

Delaware law and our governing documents may impede or discourage a takeover, which could adversely affect the value of our common stock.

Provisions of Delaware law and our certificate of incorporation and bylaws may discourage a change of control of our company or deter tender offers for our common stock. We are currently subject to anti-takeover provisions under Delaware law. These anti-takeover provisions impose various impediments to the ability of a third party to acquire control of us. Additionally, provisions of our certificate of incorporation and bylaws impose various procedural and other requirements, which could make it more difficult for stockholders to effect certain corporate actions. For example, our certificate of incorporation authorizes our Board of Directors to determine the rights, preferences and privileges and restrictions of unissued shares of preferred stock without any vote or action by our stockholders. As a result, our Board of Directors can authorize and issue shares of preferred stock with voting or conversion rights that

could adversely affect the voting or other rights of holders of common stock. Our certificate of incorporation also divides our Board of Directors into three classes of directors who serve for staggered terms. A significant effect of a classified Board of Directors may be to deter hostile takeover attempts because an acquirer could experience delays in replacing a majority of directors. Moreover, stockholders are not permitted to call a special meeting. Prior

to May 26, 2019, the Successor Transfer Restrictions in our certificate of incorporation will restrict certain transactions in our common stock involving 5% stockholders or parties who would become 5% stockholders as a result of the transaction. The general effect of the Successor Transfer Restrictions, which were put in place to reduce the risk that an ownership change would jeopardize the preservation of our U.S. federal income tax attributes, including net operating loss carryforwards, is to ensure that an ownership change cannot occur in any 36-month period without the consent of our Board of Directors. These rights and provisions may have the effect of delaying or deterring a change of control of our company and may limit the price that investors might be willing to pay in the future for shares of our common stock.

In addition, on April 7, 2016, we adopted the Tax Asset Rights Plan, which is designed to preserve our ability to fully utilize our net operating loss carryforwards and other significant tax attributes to offset future taxable income. At the 2016 annual meeting of our stockholders, our stockholders ratified the adoption of the Tax Asset Rights Plan, which will expire on April 7, 2019. Like the rights and provisions described above, including the Successor Transfer Restrictions in our certificate of incorporation, the Tax Asset Rights Plan could have the effect of delaying or deterring a change of control of our company and may limit the price that investors might be willing to pay in the future for shares of our common stock.

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

The following table provides information regarding our repurchases of our common shares during the quarter ended September 30, 2016:

|                                        | Amended<br>and Restated<br>2006 Equity<br>and Stock Repurchase Plan<br>Performance<br>Incentive<br>Plan |                                            |                                              |                                               |                                                                                                                                |
|----------------------------------------|---------------------------------------------------------------------------------------------------------|--------------------------------------------|----------------------------------------------|-----------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------|
|                                        | Total<br>Number<br>of<br>Shares<br>Purchased                                                            | Average<br>Price per<br>Share <sup>1</sup> | Total<br>Number<br>of<br>Shares<br>Purchased | Average<br>Price<br>per<br>Share <sup>2</sup> | Maximum<br>Dollar<br>Value of<br>Shares that<br>May Yet<br>Be<br>Purchased<br>Under the<br>Programs<br>(millions) <sup>2</sup> |
| July 1, 2016 - July 31, 2016           | 68                                                                                                      | \$ 90.41                                   | 13,976                                       | \$ 85.45                                      | \$ 113.5                                                                                                                       |
| August 1, 2016 - August 31, 2016       | —                                                                                                       | —                                          | 27,191                                       | 84.03                                         | \$ 111.2                                                                                                                       |
| September 1, 2016 - September 30, 2016 | —                                                                                                       | —                                          | 20,104                                       | 84.83                                         | \$ 109.5                                                                                                                       |
| Total                                  | 68                                                                                                      | \$ 90.41                                   | 61,271                                       | \$ 84.62                                      | N/A                                                                                                                            |

Under our equity incentive plans, participants may elect to have us withhold common shares to satisfy minimum statutory tax withholding obligations arising from the recognition of income and the vesting of restricted stock, restricted stock units and performance shares. When we withhold these shares, we are required to remit to the appropriate taxing authorities the market price of the shares withheld by us on the date of withholding. The withholding of common shares by us could be deemed a purchase of such common shares. During the quarter ended September 30, 2016, we withheld 68 shares of common stock to satisfy employee tax withholding obligations. All such shares were withheld and canceled by us on the applicable vesting dates or dates on which income to the employees was recognized, and the number of shares withheld was determined based on the closing price per common share as reported on the Nasdaq Global Select Market on such dates.

Of the \$109.5 million that as of September 30, 2016 may yet be used to purchase our shares pursuant to the stock repurchase plan, \$9.5 million is part of the \$75.0 million that was authorized in December 2013 and \$100.0 million  
2 was authorized in April 2015. Repurchase transactions will occur at such times and prices as management deems appropriate and will be funded with our excess liquidity after giving consideration to internal and external growth opportunities and future cash flows. Repurchases may be in open-market transactions or in privately negotiated transactions, and the program may be modified or terminated by our Board of Directors at any time.

See Note 3 of Notes to Consolidated Financial Statements included in our Annual Report on Form 10-K for the year ended December 31, 2015 for information about restrictions on dividend payments contained in the Revolving Credit Facility. See Note 3 of Notes to Interim Consolidated Financial Statements included in this Report for information regarding restrictions on dividend payments contained in the indenture for our 5.875% Senior Notes.

## Item 3. Defaults Upon Senior Securities

None.

## Item 4. Mine Safety Disclosures

Not applicable.

## Item 5. Other Information

Debt Issuance Costs. As discussed in Note 1 of Notes to Interim Consolidated Financial Statements included in this Report, we retrospectively adopted Accounting Standards Update 2015-03, which resulted in the following reclassification adjustments for the period presented related to debt issuance costs (in millions of dollars):

| December<br>31, 2014<br>(As<br>Reported) | Adjustments<br>for<br>Retrospective<br>Adoption | December<br>31, 2014<br>(As<br>Adjusted) |
|------------------------------------------|-------------------------------------------------|------------------------------------------|
|------------------------------------------|-------------------------------------------------|------------------------------------------|

## ASSETS

## Current assets:

|                                           |            |          |   |            |
|-------------------------------------------|------------|----------|---|------------|
| Prepaid expenses and other current assets | \$ 178.6   | \$ (0.3) | ) | \$ 178.3   |
| Total current assets                      | 825.2      | (0.3)    | ) | 824.9      |
| Other assets                              | 23.3       | (4.4)    | ) | 18.9       |
| Total                                     | \$ 1,743.7 | \$ (4.7) | ) | \$ 1,739.0 |

## LIABILITIES AND STOCKHOLDERS' EQUITY

## Current liabilities:

|                                   |            |          |   |            |
|-----------------------------------|------------|----------|---|------------|
| Current portion of long-term debt | \$ 172.5   | \$ (0.3) | ) | \$ 172.2   |
| Total current liabilities         | 426.4      | (0.3)    | ) | 426.1      |
| Long-term debt                    | 225.0      | (4.4)    | ) | 220.6      |
| Total liabilities                 | 727.8      | (4.7)    | ) | 723.1      |
| Total stockholders' equity        | 1,015.9    | —        |   | 1,015.9    |
| Total                             | \$ 1,743.7 | \$ (4.7) | ) | \$ 1,739.0 |

Guarantor and Non-Guarantor Financial Information. As discussed in Note 3 and Note 15 of Notes to Interim Consolidated Financial Statements included in this Report, our 5.875% Senior Notes are unsecured obligations and are guaranteed by certain of our domestic subsidiaries that own virtually all of our operating assets and through which we conduct the vast majority of our business. Kaiser Aluminum Mill Products, Inc. was included in the "Guarantor Subsidiaries" under the indenture covering the 8.25% Senior Notes but is not a Guarantor Subsidiary under the indenture for our 5.875% Senior Notes. The impact of this change to our condensed consolidated balance sheets as of December 31, 2015 and 2014, and the condensed consolidated statements of comprehensive (loss) income and cash flows for each of the three years in the period ended December 31, 2015 is considered immaterial and, therefore, these periods have not been restated to reflect this change.

Item 6. Exhibits

| Exhibit<br>Number | Description                                                                                        |
|-------------------|----------------------------------------------------------------------------------------------------|
| *31.1             | Certification of Jack A. Hockema pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.        |
| *31.2             | Certification of Daniel J. Rinkenberger pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| *32.1             | Certification of Jack A. Hockema pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.        |
| *32.2             | Certification of Daniel J. Rinkenberger pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| * 101.INS         | XBRL Instance                                                                                      |
| * 101.SCH         | XBRL Taxonomy Extension Schema                                                                     |
| *101.CAL          | XBRL Taxonomy Extension Calculation                                                                |
| * 101.DEF         | XBRL Taxonomy Extension Definition                                                                 |
| * 101.LAB         | XBRL Taxonomy Extension Label                                                                      |
| * 101.PRE         | XBRL Taxonomy Extension Presentation                                                               |
| * Filed herewith. |                                                                                                    |

SIGNATURES

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

KAISER  
ALUMINUM  
CORPORATION

/s/ Daniel J.  
Rinkenberger  
Daniel J.  
Rinkenberger  
Executive Vice  
President and  
Chief Financial  
Officer  
(Principal  
Financial Officer)

/s/ Neal West  
Neal West  
Vice President  
and Chief  
Accounting  
Officer  
(Principal  
Accounting  
Officer)

Date: October 25, 2016

# INDEX TO EXHIBITS

| Exhibit<br>Number | Description                                                                                        |
|-------------------|----------------------------------------------------------------------------------------------------|
| *31.1             | Certification of Jack A. Hockema pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.        |
| *31.2             | Certification of Daniel J. Rinkenberger pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| *32.1             | Certification of Jack A. Hockema pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.        |
| *32.2             | Certification of Daniel J. Rinkenberger pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| * 101.INS         | XBRL Instance                                                                                      |
| * 101.SCH         | XBRL Taxonomy Extension Schema                                                                     |
| *101.CAL          | XBRL Taxonomy Extension Calculation                                                                |
| * 101.DEF         | XBRL Taxonomy Extension Definition                                                                 |
| * 101.LAB         | XBRL Taxonomy Extension Label                                                                      |
| * 101.PRE         | XBRL Taxonomy Extension Presentation                                                               |
| * Filed herewith. |                                                                                                    |