KAISER ALUMINUM CORP
Form 10-Q
July 27, 2016

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

FORM 10-Q

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

For the quarterly period ended June 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: 0-52105

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 þ No o
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
Yes þ No o
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See 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 þ Accelerated filer o

Non-accelerated filer o (Do not check if a smaller reporting company) Smaller reporting company o
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No þ
As of July 18, 2016, there were 17,981,239 shares of common stock of the registrant outstanding.

TABLE OF CONTENTS

KAISER ALUMINUM CORPORATION AND SUBSIDIARY COMPANIES
PART I – FINANCIAL INFORMATION
Item 1. Financial Statements
CONSOLIDATED BALANCE SHEETS (UNAUDITED)

	June 30, 2016	December 31, 2015
	(In millions of dollars, except share and per share amounts)	
ASSETS		
Current assets:		
Cash and cash equivalents	$195.3	$ 72.5
Short-term investments	72.0	30.0
Receivables:		
Trade receivables – net	134.6	116.7
Other	8.2	6.1
Inventories	217.5	219.6
Prepaid expenses and other current assets[1]	12.8	56.7
Total current assets	640.4	501.6
Property, plant and equipment – net	512.7	495.4
Deferred tax assets – net[1, 2]	180.9	163.3
Intangible assets – net	29.7	30.5
Goodwill	37.2	37.2
Other assets[1]	20.7	19.6
Total	$1,421.6	$ 1,247.6
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$72.3	$ 76.7
Accrued salaries, wages and related expenses	36.4	39.8
Other accrued liabilities	44.2	52.7
Short-term capital leases	0.1	0.1
Total current liabilities	153.0	169.3
Net liabilities of Salaried VEBA	18.5	19.0
Deferred tax liabilities	2.2	2.1
Long-term liabilities	71.4	87.5
Long-term debt[1]	368.2	194.6
Total liabilities	613.3	472.5
Commitments and contingencies – Note 7		
Stockholders' equity:		
Preferred stock, 5,000,000 shares authorized at both June 30, 2016 and December 31, 2015; no shares were issued and outstanding at June 30, 2016 and December 31, 2015	—	—
Common stock, par value $0.01, 90,000,000 shares authorized at both June 30, 2016 and at December 31, 2015; 22,331,071 shares issued and 17,984,605 shares outstanding at June 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[2]	1,041.2	1,037.3
Retained earnings[2]	51.9	15.8
Treasury stock, at cost, 4,346,466 shares at June 30, 2016 and 4,237,433 shares at December 31, 2015, respectively	(255.1)	(246.5)
Accumulated other comprehensive loss	(29.9)	(31.7)

Total stockholders' equity	808.3	775.1
Total	$1,421.6	$ 1,247.6

[1] See Note 1 for discussion of our adoption of ASU 2015-03, ASU 2015-15 and ASU 2015-17 (as defined in Note 1).
[2] 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.

1

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

	Quarter Ended		Six Months Ended	
	June 30,		June 30,	
	2016	2015	2016	2015
	(In millions of dollars, except share and per share amounts)			
Net sales	$334.9	$367.2	$678.1	$738.9
Costs and expenses:				
Cost of products sold:				
Cost of products sold, excluding depreciation and amortization and other items	250.4	294.8	512.4	597.1
Lower of cost or market inventory write-down	—	—	4.9	—
Unrealized (gain) loss on derivative instruments	(10.9)	1.5	(14.9)	6.0
Depreciation and amortization	9.0	8.1	17.7	16.1
Selling, general, administrative, research and development:				
Selling, general, administrative, research and development	27.5	23.6	53.6	46.3
Net periodic postretirement benefit cost relating to Salaried VEBA	0.9	0.6	1.7	1.2
Loss (gain) on removal of Union VEBA net assets – Note 5	—	1.6	(0.1)	493.8
Total selling, general, administrative, research and development	28.4	25.8	55.2	541.3
Other operating charges, net	0.1	—	0.1	—
Total costs and expenses	277.0	330.2	575.4	1,160.5
Operating income (loss)	57.9	37.0	102.7	(421.6)
Other (expense) income:				
Interest expense	(5.5)	(5.2)	(9.2)	(15.0)
Other (expense) income, net – Note 13	(10.7)	0.4	(10.4)	0.8
Income (loss) before income taxes	41.7	32.2	83.1	(435.8)
Income tax (provision) benefit	(15.7)	(12.0)	(30.8)	163.8
Net income (loss)	$26.0	$20.2	$52.3	$(272.0)
Net income (loss) per common share:				
Basic	$1.45	$1.19	$2.92	$(15.78)
Diluted	$1.43	$1.11	$2.87	$(15.78)
Weighted-average number of common shares outstanding (in thousands):				
Basic	17,871	17,006	17,867	17,233
Diluted	18,194	18,192	18,194	17,233
Dividends declared per common share	$0.45	$0.40	$0.90	$0.80

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		Six Months Ended	
	June 30,		June 30,	
	2016	2015	2016	2015
	(In millions of dollars)			
Net income (loss)	$26.0	$20.2	$52.3	$(272.0)
Other comprehensive income:				
VEBAs:				
Reclassification adjustments:				
Amortization of net actuarial loss	0.1	0.2	0.2	0.5
Amortization of prior service cost	1.0	0.8	2.0	1.5
Removal of obligation relating to Union VEBA	—	—	—	106.6
Other comprehensive income relating to VEBAs	1.1	1.0	2.2	108.6
Available for sale securities:				
Unrealized gain (loss) on available for sale securities	0.4	(0.3)	0.4	(0.3)
Reclassification adjustments:				
Reclassification of unrealized loss upon sale of available for sale securities	—	0.1	—	0.2
Other comprehensive income (loss) relating to available for sale securities	0.4	(0.2)	0.4	(0.1)
Foreign currency translation gain on Canadian pension plan	—	—	0.1	—
Unrealized (loss) gain on foreign currency cash flow hedges	(0.1)	(0.2)	0.1	(0.2)
Foreign currency translation gain	—	—	—	0.1
Other comprehensive income, before tax	1.4	0.6	2.8	108.4
Income tax expense related to items of other comprehensive income	(0.5)	(0.2)	(1.0)	(41.1)
Other comprehensive income, net of tax	0.9	0.4	1.8	67.3
Comprehensive income (loss)	$26.9	$20.6	$54.1	$(204.7)

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 Shares Outstanding	Common Stock	Additional Paid in Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive 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[1]	—	—	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	—	—	—	52.3	—	—	52.3
Other comprehensive income, net of tax	—	—	—	—	—	1.8	1.8
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	64,427	—	1.0	—	—	—	1.0
Cancellation of employee non-vested shares	(282)	—	—	—	—	—	—
Cancellation of shares to cover employees' tax withholdings upon vesting of non-vested shares	(35,430)	—	(2.8)	—	—	—	(2.8)
Repurchase of common stock	(109,033)	—	—	—	(8.6)	—	(8.6)
Cash dividends on common stock ($0.90 per share)	—	—	—	(16.3)	—	—	(16.3)
Amortization of unearned equity compensation	—	—	5.6	—	—	—	5.6
Dividends on unvested equity awards that were canceled	—	—	—	0.1	—	—	0.1
BALANCE, June 30, 2016	17,984,605	$ 0.2	$ 1,041.2	$ 51.9	$ (255.1)	$ (29.9)	$ 808.3

1. 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)

	Six Months Ended June 30, 2016	2015
	(In millions of dollars)	
Cash flows from operating activities:		
Net income (loss)	$52.3	$(272.0)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation of property, plant and equipment	16.9	15.3
Amortization of definite-lived intangible assets	0.8	0.8
Amortization of debt discount and debt issuance costs	0.5	3.6
Deferred income taxes – Note 1	31.3	(163.8)
Excess tax benefit upon vesting of non-vested shares and dividend payment on unvested shares expected to vest[1]	—	(1.1)
Non-cash equity compensation[1]	5.7	4.8
Lower of cost or market write-down	4.9	—
Loss on extinguishment of debt	11.1	—
Non-cash unrealized (gain) loss on derivative instruments	(14.9)	6.0
Non-cash net periodic postretirement benefit cost relating to Salaried VEBA	1.7	1.2
Non-cash loss on removal of Union VEBA net assets[2]	—	446.7
Other non-cash changes in assets and liabilities	0.9	0.4
Changes in operating assets and liabilities:		
Trade and other receivables	(20.0)	(4.3)
Inventories, excluding lower of cost or market write-down	(2.8)	(2.6)
Prepaid expenses and other current assets	(2.7)	(1.7)
Accounts payable	3.4	(6.1)
Accrued liabilities[2]	17.4	7.0
Annual variable cash contributions to VEBAs[2]	(19.5)	(13.7)
Long-term assets and liabilities, net[2]	(14.9)	27.8
Net cash provided by operating activities	72.1	48.3
Cash flows from investing activities[3]:		
Capital expenditures	(42.3)	(22.9)
Purchase of available for sale securities	(72.4)	(0.5)
Proceeds from disposition of available for sale securities	30.0	84.0
Net cash (used in) provided by investing activities	(84.7)	60.6
Cash flows from financing activities[3]:		
Repayment of principal and redemption premium of 8.25% Senior Notes	(206.0)	—
Issuance of 5.875% Senior Notes	375.0	—
Cash paid for debt issuance costs	(6.9)	—
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)	—
Excess tax benefit upon vesting of non-vested shares and dividend payment on unvested shares expected to vest[1]	—	1.1

Cancellation of shares to cover employees' tax withholdings upon vesting of non-vested shares	(2.8)	(3.0)

5

	Six Months Ended June 30,	
	2016	2015
Repurchase of common stock	(8.5)	(41.4)
Cash dividends paid to stockholders	(16.3)	(14.0)
Net cash provided by (used in) financing activities	135.4	(232.3)
Net increase (decrease) in cash and cash equivalents during the period	122.8	(123.4)
Cash and cash equivalents at beginning of period	72.5	177.7
Cash and cash equivalents at end of period	$195.3	$54.3

[1] See Note 4 and Note 6 for discussion of our adoption of ASU 2016-09.
[2] See Note 5 for the impact of removing the Union VEBA (defined in Note 5) net assets.
[3] 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 was no lower of cost or market inventory adjustment during the quarter ended June 30, 2016.
Finished products, work-in-process and raw material inventories are stated on the last-in, first-out ("LIFO") basis. At June 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 $17.4 million and $24.1 million, respectively. Other inventories, principally operating supplies and repair and maintenance parts, are stated at average cost. 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 June 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 $0.9 million and $0.4 million during the quarters ended June 30, 2016 and June 30, 2015, respectively. The amount of interest expense capitalized as construction in progress was $1.8 million and $0.7 million during the six months ended June 30, 2016 and June 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). For the quarters ended June 30, 2016 and June 30, 2015, we recorded depreciation expense of $8.4 million and $7.6 million, respectively, relating to our operating facilities in the Fabricated Products segment. For the six months ended June 30, 2016 and June 30, 2015, we recorded depreciation expense of $16.6 million and $15.1 million, respectively, relating to our operating facilities in the Fabricated Products segment. An immaterial amount of depreciation expense was also recorded within All Other for all periods presented in this Report.

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 $25.6 million and $23.5 million at June 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 June 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 $3.2 million for both periods ended June 30, 2016 and December 31, 2015.

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 in the period in which 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.

In order to qualify for hedge accounting treatment, derivative instruments must be effective at reducing the risk associated with the exposure being hedged and must be designated as a hedge at the inception of the instrument contract. 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 immediately. If a cash flow hedge ceases to qualify for hedge accounting treatment, the derivative instrument would continue to be carried on the balance sheet at fair value until settled and future adjustments to the derivative instrument's fair value would be recognized in Net income (loss) immediately. If a forecasted equipment purchase was no longer probable to occur, amounts previously deferred in Accumulated other comprehensive income (loss) would be recognized immediately in Net income (loss). See Note 8 for additional information.

We are exposed to counterparty credit risk on all of our derivative instruments. Accordingly, we have established and maintained counterparty credit guidelines and entered into hedges only with major financial institutions that are investment grade or better. We do not have significant exposure to any one counterparty and management believes the risk of loss is remote and in any event would not be material. Additionally, we do not require collateral under these agreements.

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

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

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; 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 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. 2015-15, Interest - Imputation of Interest (Subtopic 835-30) - Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements ("ASU 2015-15"), was issued in August 2015 to address the presentation and subsequent measurement of debt issuance costs related to line-of-credit arrangements. The recognition and measurement guidance for debt issuance costs is not affected by ASU 2015-15. Our adoption of this ASU in the first quarter of 2016 did not have a material impact on our consolidated financial statements.

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 ("ASU 2015-05"), was issued in April 2015 to address a customer's accounting for fees paid in a cloud computing arrangement. Previously, there was no specific GAAP guidance on accounting for such fees from the customer's perspective. Under the new standard, customers will apply the same criteria as vendors to determine whether a cloud computing arrangement contains a software license or is solely a service contract. Our prospective adoption of this ASU in the first quarter of 2016 did not have a material impact on our consolidated financial statements.

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) ("ASU 2015-07"), was issued in May 2015. This ASU removes the requirement to categorize within the fair value hierarchy table investments without readily determinable fair values in entities that elect to measure fair value using net asset value per share ("NAV") or its equivalent. ASU 2015-07 requires that these investments continue to be shown in the fair value disclosure in order to allow the disclosure to reconcile to the investment amount presented in the balance sheet. Our retrospective adoption of this ASU in the first quarter of 2016 did not have a material impact on our consolidated financial statements.

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.

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

ASU No. 2016-13, Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments ("ASU 2016-13"), was issued in June 2016. ASU 2016-13 introduces an approach based on expected losses to estimate credit losses on certain types of financial instruments. It also modifies the impairment model for available-for-sale debt securities and provides for a simplified accounting model for purchased financial assets with credit deterioration since their origination. ASU 2016-13 becomes effective for us in the first quarter of 2020, with early adoption permitted starting in the first quarter of 2019. We do not expect the adoption of this ASU to have a material impact on our consolidated financial statements.

2. Supplemental Balance Sheet Information

	June 30, 2016	December 31, 2015
	(In millions of dollars)	
Cash and Cash Equivalents		
Cash and money market funds	$50.6	$ 40.3
Commercial paper	144.7	32.2
Total	$195.3	$ 72.5
Trade Receivables – Net		
Billed trade receivables	$135.2	$ 116.8
Unbilled trade receivables	0.2	0.7
Trade receivables, gross	135.4	117.5
Allowance for doubtful receivables	(0.8)	(0.8)
Trade receivables – net	$134.6	$ 116.7
Inventories		
Finished products	$65.2	$ 79.5
Work-in-process	78.8	63.6
Raw materials	49.9	53.4
Operating supplies and repair and maintenance parts	23.6	23.1
Total	$217.5	$ 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	2.2	—
Prepaid insurance	2.1	1.9
Short-term restricted cash	0.3	0.3
Other	3.6	3.4
Total	$12.8	$ 56.7

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

	June 30, 2016	December 31, 2015
	(In millions of dollars)	
Property, Plant and Equipment – Net		
Land and improvements	$22.7	$ 22.7
Buildings and leasehold improvements	83.6	71.8
Machinery and equipment	573.8	549.0
Construction in progress	45.7	48.5
Property, plant and equipment – gross	725.8	692.0
Accumulated depreciation	(213.4)	(196.9)
Assets held for sale	0.3	0.3
Property, plant and equipment – net	$512.7	$ 495.4
Other Assets		
Restricted cash	$11.0	$ 10.9
Debt issuance costs on Revolving Credit Facility	1.1	1.3
Deferred compensation plan assets	7.8	7.3
Derivative assets – Notes 8 and 9	0.8	0.1
Total	$20.7	$ 19.6
Other Accrued Liabilities		
Current derivative liabilities – Notes 8 and 9	$4.3	$ 14.1
Uncleared cash disbursements	7.8	8.0
Accrued income taxes and taxes payable	6.7	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	3.1	1.5
Short-term deferred revenue	0.2	1.2
Other	3.6	3.6
Total	$44.2	$ 52.7
Long-Term Liabilities		
Derivative liabilities – Notes 8 and 9	$0.7	$ 2.1
Income tax liabilities	0.8	0.7
Workers' compensation accruals	24.0	21.7
Long-term environmental accrual – Note 7	16.4	17.0
Long-term asset retirement obligations	5.0	4.8
Deferred compensation liability	8.0	7.7
Long-term deferred revenue	0.2	0.3
Long-term capital leases	0.1	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
Total	$71.4	$ 87.5

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

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 June 30, 2016 was $6.8 million. Interest expense, including amortization of debt issuance costs, relating to the 5.875% Senior Notes was $3.1 million for the quarter and six months ended June 30, 2016. 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 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.
In connection with the issuance of the 5.875% Senior Notes, we expect to have an exchange offer registration statement declared effective by the Securities and Exchange Commission on or prior to 240 days after the 5.875% Senior Notes were issued. If we fail to comply with the 240 day timeline, we may be required to pay additional interest.
The fair value of the outstanding 5.875% Senior Notes at June 30, 2016 was approximately $383.4 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) income, 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 $2.8 million and $4.9 million for the quarters ended June 30, 2016 and June 30, 2015,

respectively, and $7.1 million and $9.7 million for the six months ended June 30, 2016 and June 30, 2015, 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.

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

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 June 30, 2016, based on the borrowing base determination then in effect. At June 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 June 30, 2016.

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 June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Domestic	$15.5	$13.4	$30.4	$(162.4)
Foreign	0.2	(1.4)	0.4	(1.4)
Total	$15.7	$12.0	$30.8	$(163.8)

The income tax provision for the quarters ended June 30, 2016 and June 30, 2015 was $15.7 million and $12.0 million, reflecting an effective tax rate of 37.7% and 37.2%, respectively. There was no material difference between the effective tax rate and the projected blended statutory tax rate for the quarter ended June 30, 2016. The difference between the effective tax rate and the projected blended statutory tax rate for the quarter ended June 30, 2015 was due primarily to an increase in the valuation allowance of $1.9 million, resulting in a 5.8% increase in the effective tax rate. This increase in the valuation allowance was due to unutilized state NOL carryforwards that are expected to expire. This was partially offset by a decrease in unrecognized tax benefits, including interest and penalties, of $1.8 million, resulting in a 5.4% decrease in the effective tax rate. The decrease in unrecognized tax benefits was a result of a decrease in prior year positions.

The income tax provision (benefit) for the six months ended June 30, 2016 and June 30, 2015 was $30.8 million and $(163.8) million, reflecting an effective tax rate of 37.1% and 37.6%, respectively. There was no material difference between the effective tax rate and the projected blended statutory tax rate for the six months ended June 30, 2016 and June 30, 2015.

The $(163.8) million income tax benefit for the six months ended June 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 $1.7 million at June 30, 2016 and December 31, 2015, respectively, of which, $0.6 million would be recorded through our income tax provision and thus impact the effective tax rate at June 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.

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

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 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.

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

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 treat the Salaried VEBA as a defined benefit plan in our financial statements.

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 six months ended June 30, 2016 and June 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 June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Salaried VEBA:				
Service cost[1]	$—	$—	$—	$—
Interest cost	0.8	0.7	1.5	1.4
Expected return on plan assets	(1.0)	(1.1)	(2.0)	(2.2)
Amortization of prior service cost	1.0	0.8	2.0	1.5
Amortization of net actuarial loss	0.1	0.2	0.2	0.5
Total net periodic postretirement benefit cost relating to Salaried VEBA	0.9	0.6	1.7	1.2
Loss (gain) on removal of Union VEBA net assets	—	1.6	(0.1)	493.8
Total VEBAs	0.9	2.2	1.6	495.0
Other employee benefit plans:				
Deferred compensation plan	0.2	0.1	0.3	0.5
Defined contribution plans	1.7	1.7	5.7	5.7
Multiemployer pension plans	1.2	0.9	2.3	1.8
Total other employee benefit plans	$3.1	$2.7	$8.3	$8.0
Total	$4.0	$4.9	$9.9	$503.0

[1] The service cost was insignificant for all periods presented.

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

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 June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Fabricated Products	$2.8	$2.4	$7.5	$7.0
All Other	1.2	2.5	2.4	496.0
Total	$4.0	$4.9	$9.9	$503.0

For all periods presented, Net periodic postretirement benefit cost relating to Salaried VEBA and the Loss (gain) 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 June 30, 2016, we had a liability of $13.1 million recorded within Accrued salaries, wages and related expenses for estimated probable future payments relating to the six 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 June 30, 2016, 924,102 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.

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

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 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. 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		Six Months Ended	
	June 30,		June 30,	
	2016	2015	2016	2015
Non-vested common shares and restricted stock units	$1.2	$1.1	$2.3	$2.2
EVA-Based Performance Shares	—	0.3	0.3	0.7
TSR-Based Performance Shares	1.4	1.0	2.5	1.7
CP-Based Performance Shares	0.4	—	0.5	—
Total non-cash compensation expense	$3.0	$2.4	$5.6	$4.6

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

	Quarter Ended	Six Months

			Ended	
	June 30,		June 30,	
	2016	2015	2016	2015
Fabricated Products	$1.1	$0.9	$1.9	$1.6
All Other	1.9	1.5	3.7	3.0
Total non-cash compensation expense	$3.0	$2.4	$5.6	$4.6

17

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 June 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	$ 8.3	2.0
CP-Based Performance Shares	$ 4.3	2.7
TSR-Based Performance Shares	$ 9.1	2.0

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

	Non-Vested Common Shares		Restricted Stock Units		EVA-Based Performance Shares		CP-Based Performance Shares		TSR-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	155,105	$ 57.76	—	$ —	299,877	$ 89.43
Granted[1]	9,702	86.11	57,205	75.57	—	—	63,983	80.46	95,974	93.02
Vested	(49,582)	65.53	(2,048)	62.75	(49,611)	57.76	—	—	—	—
Forfeited[1]	(282)	69.11	(385)	74.49	—	—	(164)	80.46	(1,115)	90.06
Canceled[1]	—	—	—	—	(105,494)	57.76	—	—	—	—
Outstanding at June 30, 2016	116,391	$ 69.49	60,293	$ 75.20	—	$ —	63,819	$ 80.46	394,736	$ 90.30

1 For EVA-Based Performance Shares, CP-Based Performance Shares and TSR-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 June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Non-vested common shares	$86.11	$82.88	$86.11	$71.67
Restricted stock units	$88.27	$—	$75.57	$69.83
CP-Based Performance Shares	$—	$—	$80.46	$—
TSR-Based Performance Shares	$—	$—	$93.02	$95.68

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 1.25 years. During the six months ended June 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 June 30, 2016 with a remaining contractual life of 0.75 years.

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

Vested Stock. From time to time, we issue common shares to non-employee directors electing to receive common shares in lieu of all or a portion of their annual retainer fees. The fair value of these common shares is based on the fair value of the shares at the date of issuance and is immediately recognized in Net income (loss) as a period expense. We recorded $0.1 million and $0.2 million during the six months ended June 30, 2016 and June 30, 2015, respectively, relating to common shares granted to non-employee directors in lieu of all or a portion of their annual retainer fees.

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 six months ended June 30, 2016 and June 30, 2015, 35,430 and 34,969 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 and purchase obligations during the six months ended June 30, 2016.

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. 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 ground water 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 June 30, 2016, our environmental accrual of $17.8 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.

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

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 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 $24.7 million over the remediation period. 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.

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 June 30, 2016, we had open forward contracts designated as cash flow hedges to purchase euros with maturity dates between three months and 14 months. The notional amounts of these foreign currency forward contracts totaled 2.0 million euros and 4.7 million euros at June 30, 2016 and December 31, 2015, respectively, with an average contract exchange rate of 1.13 and 1.14 euro to US dollar, respectively. The effective portion of the fair value on these instruments is recorded within Other comprehensive income (loss) 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 six months ended June 30, 2016 and June 30, 2015 and anticipate no material such reclassifications for the next 12 months. We incurred no ineffectiveness on these hedges during the quarters and six months ended June 30, 2016 and June 30, 2015. As of June 30, 2016, the loss reported in Accumulated other comprehensive loss related to the cash flow hedges was $0.2 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 use third-party hedging instruments to limit exposure to metal price risk related

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

to the metal pass through lag on some of our products and firm-price customer sales contracts. See Note 9 for additional information regarding our material derivative positions relating to hedges of operational risk, and their respective fair values.

A majority of our derivative contracts relating to hedges of operational risks contain liquidity based thresholds that could require us to provide additional collateral in the event our liquidity were to fall below specified levels. To minimize the exposure to additional collateral requirements related to our liability hedge positions, we allocate hedging transactions among our counterparties, use 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 $2.8 million and $14.6 million at June 30, 2016 and December 31, 2015, respectively, and we had no collateral posted as of those dates.

We regularly review the creditworthiness of our derivative counterparties and do not expect to incur significant loss from the failure of any counterparties to perform under any agreements.

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		Six Months Ended	
	June 30,		June 30,	
	2016	2015	2016	2015
Included in Other Comprehensive Income (Loss):				
Unrealized (loss) gain:				
Foreign Currency	$(0.1)	$(0.2)	$0.1	$(0.2)
Included in Statements of Consolidated Income (Loss):				
Realized loss[1]:				
Aluminum	(1.0)	(7.1)	(3.7)	(9.8)
Natural Gas	(1.6)	(1.3)	(3.3)	(2.6)
Electricity	—	(0.4)	—	(1.1)
Total realized loss	$(2.6)	$(8.8)	$(7.0)	$(13.5)
Unrealized gain (loss)[2]:				
Non-designated hedges of operational risk:				
Aluminum	$6.9	$(4.3)	$10.0	$(8.5)
Natural Gas	4.0	1.5	4.9	0.8
Electricity	—	1.3	—	1.7
Total non-designated hedges of operational risk	10.9	(1.5)	14.9	(6.0)
Option Assets relating to the Convertible Notes[3]	—	—	—	10.2
Bifurcated Conversion Feature of the Convertible Notes[3]	—	—	—	(10.2)
Total unrealized gain (loss)	$10.9	$(1.5)	$14.9	$(6.0)

1 Realized loss on hedges of operational risk are recorded within Cost of products sold, excluding depreciation, amortization and other items.

2 Unrealized gain (loss) on hedges of operational risk are recorded within Unrealized (gain) loss on derivative instruments.

3 Unrealized gain (loss) on financial derivatives related to our 4.5% unsecured cash convertible senior notes ("Convertible Notes"), which settled in April 2015.

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

Aluminum	Maturity Period (month/year)	Notional Amount of contracts

		(mmlbs)
Fixed price purchase contracts	7/16 through 6/18	182.5
Fixed price sales contracts	7/16 through 12/16	0.9
Midwest premium swap contracts[1]	7/16 through 6/18	157.1

21

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

Natural Gas[2]	Maturity Period (month/year)	Notional Amount of contracts (mmbtu)
Fixed price purchase contracts	7/16 through 12/18	5,950,000

Euro	Maturity Period (month/year)	Notional Amount of contracts (euro)
Fixed price purchase contracts	9/16 through 8/17	2,020,950

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[1] Regional premiums represent the premium over the London Metal Exchange price for primary aluminum which is incurred on our purchases of primary aluminum.

[2] As of June 30, 2016, we had derivative and/or physical delivery commitments with energy companies in place to cover exposure to fluctuations in prices for approximately 81%, 74% and 72% of the expected natural gas purchases for the remainder of 2016, 2017 and 2018, respectively.

We have physical delivery commitments at firm prices covering approximately 55%, 54% and 36% of our expected electricity purchases for the remainder of 2016, 2017 and 2018, 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 June 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 (with netting agreements)	$ 2.8	$ —	$ 2.8	$ 1.3	$ —	$ 1.5
Counterparty (with partial netting agreements)	2.6	—	2.6	0.9	$ —	$ 1.7
Total	$ 5.4	$ —	$ 5.4	$ 2.2	$ —	$ 3.2

Derivative Liabilities and Collateral Held by Counterparty

Gross Amounts Not Offset in the Consolidated Balance Sheets

	Gross Amounts of Recognized Liabilities	Gross Amounts Offset in the Consolidated Balance Sheets	Net Amounts of Liabilities Presented in the Consolidated Balance Sheets	Financial Instruments	Cash Collateral Pledged	Net Amount
Counterparty (with netting agreements)	$ (3.0)	$ —	$ (3.0)	$ (1.3)	$ —	$ (1.7)
Counterparty (with partial netting agreements)	(2.0)	—	(2.0)	(0.9)	—	(1.1)
Total	$ (5.0)	$ —				