

ALLEGHENY TECHNOLOGIES INC

Form 10-Q

August 03, 2016

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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 June 30, 2016

OR

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 1-12001

ALLEGHENY TECHNOLOGIES INCORPORATED

(Exact name of registrant as specified in its charter)

|                                                                |                                      |
|----------------------------------------------------------------|--------------------------------------|
| Delaware                                                       | 25-1792394                           |
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification No.) |

|                                                      |            |
|------------------------------------------------------|------------|
| 1000 Six PPG Place                                   |            |
| Pittsburgh, Pennsylvania                             | 15222-5479 |
| (Address of Principal Executive Offices)             | (Zip Code) |
| (412) 394-2800                                       |            |
| (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 (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes ☐ No ☐

Indicate by check mark whether the Registrant submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☐ 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 definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

|                                                  |                                            |                          |
|--------------------------------------------------|--------------------------------------------|--------------------------|
| Large accelerated filer <input type="checkbox"/> | Accelerated filer <input type="checkbox"/> | <input type="checkbox"/> |
|--------------------------------------------------|--------------------------------------------|--------------------------|

|                                                |                                                                                                  |
|------------------------------------------------|--------------------------------------------------------------------------------------------------|
| Non-accelerated filer <input type="checkbox"/> | (Do not check if a smaller reporting company) Smaller reporting company <input type="checkbox"/> |
|------------------------------------------------|--------------------------------------------------------------------------------------------------|

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes ☐ No ☐

At July 22, 2016, the registrant had outstanding 108,933,448 shares of its Common Stock.

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## PART I. FINANCIAL INFORMATION

## Item 1. Financial Statements

## Allegheny Technologies Incorporated and Subsidiaries

## Consolidated Balance Sheets

(In millions, except share and per share amounts)

(Current period unaudited)

|                                                                                                                                                                                                                              | June 30,<br>2016 | December 31,<br>2015 |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------|----------------------|
| <b>ASSETS</b>                                                                                                                                                                                                                |                  |                      |
| Current Assets:                                                                                                                                                                                                              |                  |                      |
| Cash and cash equivalents                                                                                                                                                                                                    | \$322.3          | \$ 149.8             |
| Accounts receivable, net                                                                                                                                                                                                     | 492.5            | 400.3                |
| Inventories, net                                                                                                                                                                                                             | 1,094.3          | 1,271.6              |
| Prepaid expenses and other current assets                                                                                                                                                                                    | 43.3             | 45.9                 |
| Total Current Assets                                                                                                                                                                                                         | 1,952.4          | 1,867.6              |
| Property, plant and equipment, net                                                                                                                                                                                           | 2,958.9          | 2,928.2              |
| Goodwill                                                                                                                                                                                                                     | 646.9            | 651.4                |
| Other assets                                                                                                                                                                                                                 | 302.8            | 304.5                |
| Total Assets                                                                                                                                                                                                                 | \$5,861.0        | \$ 5,751.7           |
| <b>LIABILITIES AND EQUITY</b>                                                                                                                                                                                                |                  |                      |
| Current Liabilities:                                                                                                                                                                                                         |                  |                      |
| Accounts payable                                                                                                                                                                                                             | \$308.2          | \$ 380.8             |
| Accrued liabilities                                                                                                                                                                                                          | 290.8            | 301.8                |
| Short term debt and current portion of long-term debt                                                                                                                                                                        | 6.7              | 3.9                  |
| Total Current Liabilities                                                                                                                                                                                                    | 605.7            | 686.5                |
| Long-term debt                                                                                                                                                                                                               | 1,870.1          | 1,491.8              |
| Accrued postretirement benefits                                                                                                                                                                                              | 316.5            | 359.2                |
| Pension liabilities                                                                                                                                                                                                          | 826.7            | 833.8                |
| Deferred income taxes                                                                                                                                                                                                        | 52.8             | 75.6                 |
| Other long-term liabilities                                                                                                                                                                                                  | 89.9             | 108.3                |
| Total Liabilities                                                                                                                                                                                                            | 3,761.7          | 3,555.2              |
| Redeemable noncontrolling interest                                                                                                                                                                                           | —                | 12.1                 |
| Equity:                                                                                                                                                                                                                      |                  |                      |
| ATI Stockholders' Equity:                                                                                                                                                                                                    |                  |                      |
| Preferred stock, par value \$0.10: authorized-50,000,000 shares; issued-none                                                                                                                                                 | —                | —                    |
| Common stock, par value \$0.10: authorized-500,000,000 shares; issued-109,695,171 shares at June 30, 2016 and December 31, 2015; outstanding-108,933,446 shares at June 30, 2016 and 109,174,882 shares at December 31, 2015 | 11.0             | 11.0                 |
| Additional paid-in capital                                                                                                                                                                                                   | 1,178.1          | 1,161.7              |
| Retained earnings                                                                                                                                                                                                            | 1,806.7          | 1,945.9              |
| Treasury stock: 761,725 shares at June 30, 2016 and 520,289 shares at December 31, 2015                                                                                                                                      | (27.7 )          | (21.3 )              |
| Accumulated other comprehensive loss, net of tax                                                                                                                                                                             | (973.7 )         | (1,014.5 )           |
| Total ATI stockholders' equity                                                                                                                                                                                               | 1,994.4          | 2,082.8              |
| Noncontrolling interests                                                                                                                                                                                                     | 104.9            | 101.6                |
| Total Equity                                                                                                                                                                                                                 | 2,099.3          | 2,184.4              |
| Total Liabilities and Equity                                                                                                                                                                                                 | \$5,861.0        | \$ 5,751.7           |

The accompanying notes are an integral part of these statements.



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Allegheny Technologies Incorporated and Subsidiaries  
Consolidated Statements of Operations  
(In millions, except per share amounts)  
(Unaudited)

|                                                           | Three months<br>ended June 30, |           | Six months ended<br>June 30, |           |
|-----------------------------------------------------------|--------------------------------|-----------|------------------------------|-----------|
|                                                           | 2016                           | 2015      | 2016                         | 2015      |
| Sales                                                     | \$810.5                        | \$1,022.5 | \$1,568.0                    | \$2,148.0 |
| Cost of sales                                             | 762.3                          | 945.5     | 1,553.0                      | 1,961.5   |
| Gross profit                                              | 48.2                           | 77.0      | 15.0                         | 186.5     |
| Selling and administrative expenses                       | 59.3                           | 72.4      | 121.9                        | 135.5     |
| Restructuring charges                                     | 1.0                            | —         | 10.0                         | —         |
| Operating income (loss)                                   | (12.1 )                        | 4.6       | (116.9 )                     | 51.0      |
| Interest expense, net                                     | (30.3 )                        | (26.8 )   | (58.6 )                      | (53.5 )   |
| Other income, net                                         | 1.0                            | 0.6       | 1.8                          | 1.5       |
| Loss before income taxes                                  | (41.4 )                        | (21.6 )   | (173.7 )                     | (1.0 )    |
| Income tax provision (benefit)                            | (25.9 )                        | (7.7 )    | (60.1 )                      | 0.3       |
| Net loss                                                  | (15.5 )                        | (13.9 )   | (113.6 )                     | (1.3 )    |
| Less: Net income attributable to noncontrolling interests | 3.3                            | 2.5       | 6.4                          | 5.1       |
| Net loss attributable to ATI                              | \$(18.8 )                      | \$(16.4 ) | \$(120.0 )                   | \$(6.4 )  |
| Basic net loss attributable to ATI per common share       | \$(0.18 )                      | \$(0.15 ) | \$(1.12 )                    | \$(0.06 ) |
| Diluted net loss attributable to ATI per common share     | \$(0.18 )                      | \$(0.15 ) | \$(1.12 )                    | \$(0.06 ) |
| Dividends declared per common share                       | \$0.08                         | \$0.18    | \$0.16                       | \$0.36    |

The accompanying notes are an integral part of these statements.

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Allegheny Technologies Incorporated and Subsidiaries  
Consolidated Statements of Comprehensive Income (Loss)  
(In millions)  
(Unaudited)

|                                                                      | Three months<br>ended June 30,<br>2016 |           | Six months<br>ended June 30,<br>2016 |          |
|----------------------------------------------------------------------|----------------------------------------|-----------|--------------------------------------|----------|
|                                                                      | 2016                                   | 2015      | 2016                                 | 2015     |
| Net loss                                                             | \$ (15.5)                              | \$ (13.9) | \$ (113.6)                           | \$ (1.3) |
| Currency translation adjustment                                      |                                        |           |                                      |          |
| Unrealized net change arising during the period                      | (9.8 )                                 | 19.3      | (15.2 )                              | (2.5 )   |
| Unrealized holding gain on securities                                |                                        |           |                                      |          |
| Net loss arising during the period                                   | —                                      | (0.1 )    | —                                    | (0.1 )   |
| Derivatives                                                          |                                        |           |                                      |          |
| Net derivatives gain (loss) on hedge transactions                    | 26.3                                   | (10.4 )   | 17.1                                 | 8.1      |
| Reclassification to net income (loss) of net realized loss (gain)    | 2.9                                    | (2.1 )    | 7.9                                  | (4.8 )   |
| Income taxes on derivative transactions                              | 11.1                                   | (4.8 )    | 9.5                                  | 1.3      |
| Total                                                                | 18.1                                   | (7.7 )    | 15.5                                 | 2.0      |
| Postretirement benefit plans                                         |                                        |           |                                      |          |
| Actuarial loss                                                       |                                        |           |                                      |          |
| Amortization of net actuarial loss                                   | 18.8                                   | 18.7      | 37.5                                 | 37.4     |
| Net gain arising during the period                                   | —                                      | —         | 22.5                                 | —        |
| Prior service cost                                                   |                                        |           |                                      |          |
| Amortization to net income (loss) of net prior service cost (credit) | (0.5 )                                 | 1.5       | 0.4                                  | 3.0      |
| Income taxes on postretirement benefit plans                         | 6.9                                    | 7.7       | 22.9                                 | 15.4     |
| Total                                                                | 11.4                                   | 12.5      | 37.5                                 | 25.0     |
| Other comprehensive income, net of tax                               | 19.7                                   | 24.0      | 37.8                                 | 24.4     |
| Comprehensive income (loss)                                          | 4.2                                    | 10.1      | (75.8 )                              | 23.1     |
| Less: Comprehensive income attributable to noncontrolling interests  | 1.8                                    | 3.0       | 3.4                                  | 5.4      |
| Comprehensive income (loss) attributable to ATI                      | \$2.4                                  | \$7.1     | \$ (79.2 )                           | \$17.7   |
| The accompanying notes are an integral part of these statements.     |                                        |           |                                      |          |

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Allegheny Technologies Incorporated and Subsidiaries  
Consolidated Statements of Cash Flows  
(In millions)  
(Unaudited)

|                                                                                           | Six months ended<br>June 30, |          |
|-------------------------------------------------------------------------------------------|------------------------------|----------|
|                                                                                           | 2016                         | 2015     |
| Operating Activities:                                                                     |                              |          |
| Net loss                                                                                  | \$(113.6)                    | \$(1.3 ) |
| Adjustments to reconcile net loss to net cash provided by (used in) operating activities: |                              |          |
| Depreciation and amortization                                                             | 87.8                         | 93.6     |
| Deferred taxes                                                                            | (62.4 )                      | (9.6 )   |
| Changes in operating assets and liabilities:                                              |                              |          |
| Inventories                                                                               | 177.3                        | (0.1 )   |
| Accounts receivable                                                                       | (92.2 )                      | 10.2     |
| Accounts payable                                                                          | (37.3 )                      | (69.3 )  |
| Retirement benefits                                                                       | 10.3                         | 5.0      |
| Accrued income taxes                                                                      | 0.1                          | 60.2     |
| Accrued liabilities and other                                                             | (3.6 )                       | 2.8      |
| Cash provided by (used in) operating activities                                           | (33.6 )                      | 91.5     |
| Investing Activities:                                                                     |                              |          |
| Purchases of property, plant and equipment                                                | (145.3 )                     | (63.3 )  |
| Purchases of businesses, net of cash acquired                                             | —                            | (0.5 )   |
| Asset disposals and other                                                                 | 1.8                          | —        |
| Cash used in investing activities                                                         | (143.5 )                     | (63.8 )  |
| Financing Activities:                                                                     |                              |          |
| Borrowings on long-term debt                                                              | 387.5                        | —        |
| Payments on long-term debt and capital leases                                             | (0.6 )                       | (6.3 )   |
| Net borrowings under credit facilities                                                    | 2.5                          | —        |
| Debt issuance costs                                                                       | (10.4 )                      | —        |
| Dividends paid to stockholders                                                            | (17.2 )                      | (38.6 )  |
| Acquisition of noncontrolling interests                                                   | (12.2 )                      | —        |
| Shares repurchased for income tax withholding on share-based compensation                 | —                            | (1.4 )   |
| Cash provided by (used in) financing activities                                           | 349.6                        | (46.3 )  |
| Increase (decrease) in cash and cash equivalents                                          | 172.5                        | (18.6 )  |
| Cash and cash equivalents at beginning of period                                          | 149.8                        | 269.5    |
| Cash and cash equivalents at end of period                                                | \$322.3                      | \$250.9  |
| The accompanying notes are an integral part of these statements.                          |                              |          |

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## Allegheny Technologies Incorporated and Subsidiaries

## Statements of Changes in Consolidated Equity

(In millions, except per share amounts)

(Unaudited)

|                                                               | ATI Stockholders |                                  |                      |                   |                                                        |                                  |                 |
|---------------------------------------------------------------|------------------|----------------------------------|----------------------|-------------------|--------------------------------------------------------|----------------------------------|-----------------|
|                                                               | Common<br>Stock  | Additional<br>Paid-In<br>Capital | Retained<br>Earnings | Treasury<br>Stock | Accumulated<br>Other<br>Comprehensive<br>Income (Loss) | Non-<br>controlling<br>Interests | Total<br>Equity |
| Balance, December 31, 2014                                    | \$11.0           | \$1,164.2                        | \$2,398.9            | \$(44.3)          | \$ (931.4)                                             | \$ 110.9                         | \$2,709.3       |
| Net income (loss)                                             | —                | —                                | (6.4)                | —                 | —                                                      | 5.1                              | (1.3)           |
| Other comprehensive income                                    | —                | —                                | —                    | —                 | 24.1                                                   | 0.3                              | 24.4            |
| Cash dividends on common stock (\$0.36<br>per share)          | —                | —                                | (38.6)               | —                 | —                                                      | —                                | (38.6)          |
| Redeemable noncontrolling interest                            | —                | —                                | (0.1)                | —                 | —                                                      | 0.1                              | —               |
| Employee stock plans                                          | —                | (9.3)                            | (7.5)                | 23.7              | —                                                      | —                                | 6.9             |
| Balance, June 30, 2015                                        | \$11.0           | \$1,154.9                        | \$2,346.3            | \$(20.6)          | \$ (907.3)                                             | \$ 116.4                         | \$2,700.7       |
| Balance, December 31, 2015                                    | \$11.0           | \$1,161.7                        | \$1,945.9            | \$(21.3)          | \$ (1,014.5)                                           | \$ 101.6                         | \$2,184.4       |
| Net income (loss)                                             | —                | —                                | (120.0)              | —                 | —                                                      | 6.4                              | (113.6)         |
| Other comprehensive income (loss)                             | —                | —                                | —                    | —                 | 40.8                                                   | (3.0)                            | 37.8            |
| Cash dividends on common stock (\$0.16<br>per share)          | —                | —                                | (17.2)               | —                 | —                                                      | —                                | (17.2)          |
| Purchase of subsidiary shares from<br>noncontrolling interest | —                | —                                | —                    | —                 | —                                                      | (0.1)                            | (0.1)           |
| Employee stock plans                                          | —                | 16.4                             | (2.0)                | (6.4)             | —                                                      | —                                | 8.0             |
| Balance, June 30, 2016                                        | \$11.0           | \$1,178.1                        | \$1,806.7            | \$(27.7)          | \$ (973.7)                                             | \$ 104.9                         | \$2,099.3       |

The accompanying notes are an integral part of these statements.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Unaudited

Note 1. Accounting Policies

The interim consolidated financial statements include the accounts of Allegheny Technologies Incorporated and its subsidiaries. Unless the context requires otherwise, “Allegheny Technologies”, “ATT” and “the Company” refer to Allegheny Technologies Incorporated and its subsidiaries.

These unaudited consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles for interim financial information and with the instructions for Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and note disclosures required by U.S. generally accepted accounting principles for complete financial statements. In management’s opinion, all adjustments (which include only normal recurring adjustments) considered necessary for a fair presentation have been included. Certain prior year amounts have been reclassified in order to conform with the fiscal year 2016 presentation. These unaudited consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company’s 2015 Annual Report on Form 10-K. The results of operations for these interim periods are not necessarily indicative of the operating results for any future period. The December 31, 2015 financial information has been derived from the Company’s audited consolidated financial statements.

Pending Accounting Pronouncements

In March 2016, the Financial Accounting Standards Board (FASB) issued new guidance to simplify employee share-based payment accounting. The areas for simplification in this guidance involve several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. This new guidance is effective for the Company’s 2017 fiscal year with early adoption permitted. The Company is currently evaluating the possible impact of this new guidance, but does not anticipate that it will have a material impact on its consolidated financial statements.

In February 2016, the FASB issued new guidance on the accounting for leases. This new guidance will require that a lessee recognize assets and liabilities on the balance sheet for all leases with a lease term of more than twelve months, with the result being the recognition of a right of use asset and a lease liability. The new lease accounting requirements are effective for the Company’s 2019 fiscal year with a modified retrospective transition approach required, with early adoption permitted. The Company is currently evaluating the impact of the new guidance on its consolidated financial statements.

In July 2015, the FASB issued changes to simplify the measurement of inventory valuation at the lower of cost or net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less reasonably predictable costs of completion, disposal and transportation. The new inventory measurement requirements are effective for the Company’s 2017 fiscal year, and will replace the current inventory valuation guidance that requires the use of a lower of cost or market framework. This change in the measurement of inventory does not apply to inventory valued on a LIFO basis, which is the accounting basis used for most of the Company’s inventory. The adoption of these changes is not expected to have a material impact on the Company’s consolidated financial statements.

In May 2014, the FASB issued changes to revenue recognition with customers. This update provides a five-step analysis of transactions to determine when and how revenue is recognized. An entity should 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 July 2015, the FASB approved a one-year deferral of the effective date of this new guidance resulting in it now being effective for the Company beginning in fiscal year 2018. The Company plans to adopt this accounting standard update using the modified retrospective method, with the cumulative effect of initially applying this update recognized in the first reporting period of 2018. The Company is currently evaluating the impact of the new guidance on its consolidated financial statements.



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## Note 2. Inventories

Inventories at June 30, 2016 and December 31, 2015 were as follows (in millions):

|                                                 | June 30,<br>2016 | December 31,<br>2015 |
|-------------------------------------------------|------------------|----------------------|
| Raw materials and supplies                      | \$194.4          | \$ 216.0             |
| Work-in-process                                 | 851.6            | 990.3                |
| Finished goods                                  | 164.7            | 184.1                |
| Total inventories at current cost               | 1,210.7          | 1,390.4              |
| Adjustment from current cost to LIFO cost basis | 131.8            | 136.4                |
| Inventory valuation reserves                    | (204.1 )         | (206.3 )             |
| Progress payments                               | (44.1 )          | (48.9 )              |
| Total inventories, net                          | \$1,094.3        | \$ 1,271.6           |

Inventories are stated at the lower of cost (last-in, first-out (LIFO), first-in, first-out (FIFO), and average cost methods) or market, less progress payments. Most of the Company's inventory is valued utilizing the LIFO costing methodology. Inventory of the Company's non-U.S. operations is valued using average cost or FIFO methods. Due to deflationary impacts primarily related to raw materials, the carrying value of the Company's inventory as valued on LIFO exceeds current replacement cost, and based on a lower of cost or market value analysis, a net realizable value (NRV) inventory reserve is required. Impacts to cost of sales for changes in the LIFO costing methodology and associated NRV inventory reserves were as follows (in millions):

|                          | Six months<br>ended June<br>30,<br>2016 | 2015   |
|--------------------------|-----------------------------------------|--------|
| LIFO benefit (charge)    | \$(4.6)                                 | \$4.5  |
| NRV benefit (charge)     | 5.0                                     | (4.3 ) |
| Net cost of sales impact | \$0.4                                   | \$0.2  |

The first six months of 2016 and 2015 results included \$17.7 million and \$11.4 million, respectively, in inventory valuation charges related to the market-based valuation of titanium products.

## Note 3. Property, Plant and Equipment

Property, plant and equipment at June 30, 2016 and December 31, 2015 was as follows (in millions):

|                                           | June 30,<br>2016 | December 31,<br>2015 |
|-------------------------------------------|------------------|----------------------|
| Land                                      | \$30.7           | \$ 31.0              |
| Buildings                                 | 1,070.7          | 1,048.2              |
| Equipment and leasehold improvements      | 3,924.9          | 3,858.1              |
|                                           | 5,026.3          | 4,937.3              |
| Accumulated depreciation and amortization | (2,067.4 )       | (2,009.1 )           |
| Total property, plant and equipment, net  | \$2,958.9        | \$ 2,928.2           |

The construction in progress portion of property, plant and equipment at June 30, 2016 was \$116.5 million.

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## Note 4. Debt

Debt at June 30, 2016 and December 31, 2015 was as follows (in millions):

|                                                                | June 30,<br>2016 | December 31,<br>2015 |
|----------------------------------------------------------------|------------------|----------------------|
| Allegheny Technologies 5.875% Notes due 2023 (a)               | \$ 500.0         | \$ 500.0             |
| Allegheny Technologies 5.95% Notes due 2021                    | 500.0            | 500.0                |
| Allegheny Technologies 9.375% Notes due 2019                   | 350.0            | 350.0                |
| Allegheny Technologies 4.75% Convertible Senior Notes due 2022 | 287.5            | —                    |
| Allegheny Ludlum 6.95% debentures due 2025                     | 150.0            | 150.0                |
| Term Loan due 2017                                             | 100.0            | —                    |
| U.S. revolving credit facility                                 | —                | —                    |
| Foreign credit facilities                                      | 3.9              | 1.4                  |
| Industrial revenue bonds, due through 2020, and other          | 4.2              | 3.8                  |
| Debt issuance costs                                            | (18.8 )          | (9.5 )               |
| Total short-term and long-term debt                            | 1,876.8          | 1,495.7              |
| Short-term debt and current portion of long-term debt          | 6.7              | 3.9                  |
| Total long-term debt                                           | \$ 1,870.1       | \$ 1,491.8           |

(a) Bearing interest at 7.875% effective February 15, 2016.

The stated interest rate payable on the Senior Notes due 2023 (2023 Notes) is subject to adjustment in the event of changes in the credit ratings on the 2023 Notes by either Moody's or Standard & Poor's (S&P). During the first quarter of 2016, S&P downgraded the Company's credit rating one notch to B+ from BB-. This downgrade resulted in an increase of the interest rate on the 2023 Notes from 7.625% as of December 31, 2015 to 7.875% effective with the interest period beginning February 15, 2016 and represents an additional \$1.3 million of interest expense measured on an annual basis. Any further credit rating downgrades will not affect the interest rate of the 2023 Notes.

**Revolving Credit Facility**

The Company has an Asset Based Lending (ABL) Revolving Credit Facility, which matures in September 2020 and is collateralized by the accounts receivable and inventory of the Company's domestic operations. The revolving credit portion of the ABL facility is \$400 million, which includes a letter of credit sub-facility of up to \$200 million. In May 2016, the ABL facility was amended to add an eighteen month term loan (Term Loan) in the amount of \$100.0 million, to support the Company's restructuring actions and operational needs, and to amend certain of the ABL covenants and related defined terms. The interest rate on this Term Loan is 3.5% plus a LIBOR spread. Costs associated with amending the ABL facility were \$0.9 million, and are being amortized to interest expense over the term of the facility. Proceeds of the Term Loan were used to pay down outstanding borrowings under the revolving credit portion of the ABL facility. The Term Loan is due on November 13, 2017 and can be prepaid in its entirety on a one-time basis on or after May 13, 2017 if certain minimum liquidity conditions are satisfied. The underwriting fees and other third-party expenses for the issuance of the Term Loan were \$1.0 million and are being amortized to interest expense over the eighteen month term of the loan.

As amended, the applicable interest rate for borrowings under the ABL facility includes interest rate spreads based on available borrowing capacity that range between 2.0% and 2.5% for LIBOR-based borrowings and between 1.0% and 1.5% for base rate borrowings. As amended, the ABL facility contains a financial covenant whereby the Company must maintain a fixed charge coverage ratio of not less than 1.00:1.00 after an event of default has occurred and is continuing or if the undrawn availability under the ABL facility is less than the greater of (i) 12.5% of the then applicable maximum borrowing amount or (ii) \$40.0 million. The Company does not meet this required fixed charge coverage ratio at June 30, 2016. As a result, the Company is not able to access this remaining 12.5% or \$62.5 million of the ABL facility until it meets the required ratio. Additionally, the Company must demonstrate liquidity, as calculated in accordance with the terms of the agreement, of at least \$500 million on the date that is 91 days prior to June 1, 2019, the maturity date of the 9.375% Senior Notes due 2019, and that such liquidity is available at all times thereafter until the 9.375% Senior Notes due 2019 are paid in full or refinanced. There were no outstanding revolving

credit borrowings under the ABL facility as of June 30, 2016, and \$10.8 million was utilized to support the issuance of letters of credit. Average revolving credit borrowings under the ABL facility for the first six months of 2016 were \$164 million, bearing an average annual interest rate of 1.757%.

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The Company has an additional separate credit facility for the issuance of letters of credit. As of June 30, 2016, \$32 million in letters of credit were outstanding under this facility.

### Convertible Notes

In May 2016, the Company issued and sold \$250 million aggregate principal amount of 4.75% Convertible Senior Notes due 2022 (the Convertible Notes). The Company granted the underwriters a 30-day option to purchase up to an additional \$37.5 million aggregate principal amount of Convertible Notes on the same terms and conditions to cover over-allotments, if any. On June 1, 2016, the Company announced that the underwriters exercised this option in full and on June 2, 2016, the Company completed the offering and sale of the additional \$37.5 million aggregate principal amount of Convertible Notes. Interest on the Convertible Notes is payable in cash semi-annually in arrears on each January 1 and July 1, commencing January 1, 2017. The Company used a portion of the proceeds from the Convertible Notes to make a \$115 million contribution in July 2016 to the Company's U.S. defined benefit pension plan, and expects to use additional Convertible Note proceeds to meet future pension funding requirements. The underwriting fees, discount and other third-party expense for the issuance of the Convertible Notes were \$9.4 million and are being amortized to interest expense over the 6-year term of the Convertible Notes.

The Company does not have the right to redeem the Convertible Notes prior to their stated maturity date. Holders of the Convertible Notes have the option to convert their notes into shares of the Company's common stock, at any time prior to the close of business on the business day immediately preceding the stated maturity date (July 1, 2022). The initial conversion rate for the Convertible Notes is 69.2042 shares of ATI common stock per \$1,000 (in whole dollars) principal amount of Notes (19,896,194 shares), equivalent to conversion price of \$14.45 per share, subject to adjustment in certain events. Other than receiving cash in lieu of fractional shares, holders do not have the option to receive cash instead of shares of common stock upon conversion. Accrued and unpaid interest that exists upon conversion of a note will be deemed paid by the delivery of shares of ATI common stock and no cash payment or additional shares will be given to the holders.

If the Company undergoes a fundamental change, holders of the Convertible Notes may require the Company to repurchase the notes in whole or in part for cash at a price equal to 100% of the principal amount of the notes to be purchased plus any accrued and unpaid interest to, but excluding, the repurchase date. Such a repurchase is to be made in cash.

### Note 5. Derivative Financial Instruments and Hedging

As part of its risk management strategy, the Company, from time-to-time, utilizes derivative financial instruments to manage its exposure to changes in raw material prices, energy costs, foreign currencies, and interest rates. In accordance with applicable accounting standards, the Company accounts for most of these contracts as hedges. In general, hedge effectiveness is determined by examining the relationship between offsetting changes in fair value or cash flows attributable to the item being hedged, and the financial instrument being used for the hedge. Effectiveness is measured utilizing regression analysis and other techniques to determine whether the change in the fair market value or cash flows of the derivative exceeds the change in fair value or cash flow of the hedged item. Calculated ineffectiveness, if any, is immediately recognized in the consolidated statements of operations.

The Company sometimes uses futures and swap contracts to manage exposure to changes in prices for forecasted purchases of raw materials, such as nickel, and natural gas. Under these contracts, which are generally accounted for as cash flow hedges, the price of the item being hedged is fixed at the time that the contract is entered into and the Company is obligated to make or receive a payment equal to the net change between this fixed price and the market price at the date the contract matures.

The majority of ATI's products are sold utilizing raw material surcharges and index mechanisms. However, as of June 30, 2016, the Company had entered into financial hedging arrangements, primarily at the request of its customers, related to firm orders, for an aggregate notional amount of approximately 31 million pounds of nickel with hedge dates through 2020. The aggregate notional amount hedged is approximately 30% of a single year's estimated nickel raw material purchase requirements.

At June 30, 2016, the outstanding financial derivatives used to hedge the Company's exposure to energy cost volatility included natural gas cost hedges. In the first six months of 2016, due to changes in expected operating levels primarily

within the Flat Rolled Products segment operations, the Company concluded that additional portions of these natural gas hedges for 2016 and the first quarter of 2017 were ineffective based on forecast changes in underlying natural gas usage. The Company recognized a \$0.2 million and \$1.3 million pre-tax loss for the three and six months ended June 30, 2016, respectively, for natural gas cash flow hedge ineffectiveness, which is reported in selling and administrative expenses on the consolidated statement of operations. Approximately 80% of the Company's annual forecasted domestic requirements for natural gas for 2017 and approximately 25% for 2018 are hedged.

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While the majority of the Company's direct export sales are transacted in U.S. dollars, foreign currency exchange contracts are used, from time-to-time, to limit transactional exposure to changes in currency exchange rates for those transactions denominated in a non-U.S. currency. The Company sometimes purchases foreign currency forward contracts that permit it to sell specified amounts of foreign currencies expected to be received from its export sales for pre-established U.S. dollar amounts at specified dates. The forward contracts are denominated in the same foreign currencies in which export sales are denominated. These contracts are designated as hedges of the variability in cash flows of a portion of the forecasted future export sales transactions which otherwise would expose the Company to foreign currency risk, primarily euros. In addition, the Company may also designate cash balances held in foreign currencies as hedges of forecasted foreign currency transactions.

In 2015, the Company net settled substantially all of its foreign currency forward contracts designated as cash flow hedges with 2016 and 2017 maturity dates. The portion of the deferred gains on these settled cash flow hedges determined to be effective is currently recognized in accumulated other comprehensive income and is reclassified to earnings when the underlying transactions occur. As of June 30, 2016, the Company held 91.2 million euro notional value of foreign currency forward contracts designated as fair value hedges with maturity dates through 2017. The Company recorded a \$3.1 million benefit and a \$2.5 million charge in the three and six months ended June 30, 2016, respectively, and a \$1.9 million and \$7.4 million benefit in the three and six months ended June 30, 2015, respectively, in costs of sales on the consolidated statement of operations for maturities and mark-to-market changes on these fair value hedges.

The Company may enter into derivative interest rate contracts to maintain a reasonable balance between fixed- and floating-rate debt. There were no unsettled derivative financial instruments related to debt balances for the periods presented.

There are no credit risk-related contingent features in the Company's derivative contracts, and the contracts contained no provisions under which the Company has posted, or would be required to post, collateral. The counterparties to the Company's derivative contracts are substantial and creditworthy commercial banks that are recognized market makers. The Company controls its credit exposure by diversifying across multiple counterparties and by monitoring credit ratings and credit default swap spreads of its counterparties. The Company also enters into master netting agreements with counterparties when possible.

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The fair values of the Company's derivative financial instruments are presented below, representing the gross amounts recognized which are not offset by counterparty or by type of item hedged. All fair values for these derivatives were measured using Level 2 information as defined by the accounting standard hierarchy, which includes quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, and inputs derived principally from or corroborated by observable market data.

| (In millions)                                           | Balance sheet location                    | June 30, 2016 | December 31, 2015 |
|---------------------------------------------------------|-------------------------------------------|---------------|-------------------|
| <b>Asset derivatives</b>                                |                                           |               |                   |
| Derivatives designated as hedging instruments:          |                                           |               |                   |
| Foreign exchange contracts                              | Prepaid expenses and other current assets | \$ 0.3        | \$ 1.6            |
| Nickel and other raw material contracts                 | Prepaid expenses and other current assets | 1.6           | —                 |
| Foreign exchange contracts                              | Other assets                              | 0.2           | 0.4               |
| Nickel and other raw material contracts                 | Other assets                              | 4.0           | —                 |
| Total derivatives designated as hedging instruments     |                                           | 6.1           | 2.0               |
| Derivatives not designated as hedging instruments:      |                                           |               |                   |
| Foreign exchange contracts                              | Prepaid expenses and other current assets | 0.3           | 0.4               |
| Total derivatives not designated as hedging instruments |                                           | 0.3           | 0.4               |
| Total asset derivatives                                 |                                           | \$ 6.4        | \$ 2.4            |
| <b>Liability derivatives</b>                            |                                           |               |                   |
| Derivatives designated as hedging instruments:          |                                           |               |                   |
| Natural gas contracts                                   | Accrued liabilities                       | \$ 8.9        | \$ 17.3           |
| Nickel and other raw material contracts                 | Accrued liabilities                       | 12.4          | 22.2              |
| Foreign exchange contracts                              | Accrued liabilities                       | 1.2           | 0.1               |
| Natural gas contracts                                   | Other long-term liabilities               | 1.6           | 8.5               |
| Nickel and other raw material contracts                 | Other long-term liabilities               | 11.7          | 23.0              |
| Foreign exchange contracts                              | Other long-term liabilities               | 0.5           | 0.1               |
| Total derivatives designated as hedging instruments     |                                           | 36.3          | 71.2              |
| Derivatives not designated as hedging instruments:      |                                           |               |                   |
| Foreign exchange contracts                              | Accrued liabilities                       | —             | 0.1               |
| Total derivatives not designated as hedging instruments |                                           | —             | 0.1               |
| Total liability derivatives                             |                                           | \$ 36.3       | \$ 71.3           |

For derivative financial instruments that are designated as cash flow hedges, the effective portion of the gain or loss on the derivative is reported as a component of other comprehensive income (OCI) and reclassified into earnings in the same period or periods during which the hedged item affects earnings. Gains and losses on the derivative representing either hedge ineffectiveness or hedge components excluded from the assessment of effectiveness are recognized in current period results. For derivative financial instruments that are designated as fair value hedges, changes in the fair value of these derivatives are recognized in current period results. The Company did not use net investment hedges for the periods presented. The effects of derivative instruments in the tables below are presented net of related income taxes.

Assuming market prices remain constant with those at June 30, 2016, a loss of \$12.7 million is expected to be recognized over the next 12 months.

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Activity with regard to derivatives designated as cash flow hedges for the three and six month periods ended June 30, 2016 and 2015 was as follows (in millions):

| Derivatives in Cash Flow                | Amount of Gain (Loss)<br>Recognized in OCI on<br>Derivatives<br>(Effective Portion) |            | Amount of Gain (Loss)<br>Reclassified from<br>Accumulated OCI<br>into Income<br>(Effective Portion) (a) |           | Amount of Gain (Loss)<br>Recognized in Income<br>on Derivatives (Ineffective<br>Portion and Amount<br>Excluded from<br>Effectiveness Testing) (b) |      |
|-----------------------------------------|-------------------------------------------------------------------------------------|------------|---------------------------------------------------------------------------------------------------------|-----------|---------------------------------------------------------------------------------------------------------------------------------------------------|------|
|                                         | Three months ended<br>June 30,                                                      |            | Three months ended<br>June 30,                                                                          |           | Three months ended June<br>30,                                                                                                                    |      |
|                                         | 2016                                                                                | 2015       | 2016                                                                                                    | 2015      | 2016                                                                                                                                              | 2015 |
| Hedging Relationships                   |                                                                                     |            |                                                                                                         |           |                                                                                                                                                   |      |
| Nickel and other raw material contracts | \$ 12.2                                                                             | \$ (3.5 )  | \$ (3.8 )                                                                                               | \$ (2.4 ) | \$ —                                                                                                                                              | \$ — |
| Natural gas contracts                   | 4.3                                                                                 | 0.2        | (2.7 )                                                                                                  | (2.4 )    | (0.2 )                                                                                                                                            | —    |
| Electricity contracts                   | —                                                                                   | —          | —                                                                                                       | —         | —                                                                                                                                                 | —    |
| Foreign exchange contracts              | (0.2 )                                                                              | (3.1 )     | 4.9                                                                                                     | 6.1       | —                                                                                                                                                 | —    |
| Total                                   | \$ 16.3                                                                             | \$ (6.4 )  | \$ (1.6 )                                                                                               | \$ 1.3    | \$ (0.2 )                                                                                                                                         | \$ — |
| Derivatives in Cash Flow                | Amount of Gain (Loss)<br>Recognized in OCI on<br>Derivatives<br>(Effective Portion) |            | Amount of Gain (Loss)<br>Reclassified from<br>Accumulated OCI<br>into Income<br>(Effective Portion) (a) |           | Amount of Gain (Loss)<br>Recognized in Income<br>on Derivatives (Ineffective<br>Portion and Amount<br>Excluded from<br>Effectiveness Testing) (b) |      |
|                                         | Six months ended June<br>30,                                                        |            | Six months ended June<br>30,                                                                            |           | Six months ended June 30,                                                                                                                         |      |
|                                         | 2016                                                                                | 2015       | 2016                                                                                                    | 2015      | 2016                                                                                                                                              | 2015 |
| Hedging Relationships                   |                                                                                     |            |                                                                                                         |           |                                                                                                                                                   |      |
| Nickel and other raw material contracts | \$ 8.8                                                                              | \$ (13.1 ) | \$ (7.7 )                                                                                               | \$ (4.6 ) | \$ —                                                                                                                                              | \$ — |
| Natural gas contracts                   | 2.3                                                                                 | (5.8 )     | (5.9 )                                                                                                  | (4.8 )    | (0.9 )                                                                                                                                            | —    |
| Electricity contracts                   | —                                                                                   | —          | —                                                                                                       | (0.1 )    | —                                                                                                                                                 | —    |
| Foreign exchange contracts              | (0.5 )                                                                              | 23.9       | 9.6                                                                                                     | 12.5      | —                                                                                                                                                 | —    |
| Total                                   | \$ 10.6                                                                             | \$ 5.0     | \$ (4.0 )                                                                                               | \$ 3.0    | \$ (0.9 )                                                                                                                                         | \$ — |

(a) The gains (losses) reclassified from accumulated OCI into income related to the effective portion of the derivatives are presented in cost of sales in the same period or periods in which the hedged item affects earnings.

(b) The gains (losses) recognized in income on derivatives related to the ineffective portion and the amounts excluded from effectiveness testing are presented in selling and administrative expenses.

The disclosures of gains or losses presented above for nickel and other raw material contracts and foreign currency contracts do not take into account the anticipated underlying transactions. Since these derivative contracts represent hedges, the net effect of any gain or loss on results of operations may be fully or partially offset.

The Company has 14 million euro notional value outstanding as of June 30, 2016 of foreign currency forward contracts not designated as hedges, with maturity dates into the second quarter of 2017. These derivatives that are not designated as hedging instruments were as follows:

| (In millions)                                        | Amount of Gain (Loss)<br>Recognized<br>in Income on<br>Derivatives |                                                 |
|------------------------------------------------------|--------------------------------------------------------------------|-------------------------------------------------|
|                                                      | Three<br>months<br>ended June<br>30,                               | Six<br>months<br>ended<br>June 30,<br>2016 2015 |
| Derivatives Not Designated<br>as Hedging Instruments | 2016 2015                                                          | 2016 2015                                       |

Foreign exchange contracts \$0.7 \$(0.5) \$0.1 \$3.0

Changes in the fair value of foreign exchange contract derivatives not designated as hedging instruments are recorded in cost of sales.

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## Note 6. Fair Value of Financial Instruments

The estimated fair value of financial instruments at June 30, 2016 was as follows:

| (In millions)                     | Fair Value Measurements at Reporting Date Using |                            |                                                                |                                         |
|-----------------------------------|-------------------------------------------------|----------------------------|----------------------------------------------------------------|-----------------------------------------|
|                                   | Total Carrying Amount                           | Total Estimated Fair Value | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Observable Inputs (Level 2) |
| Cash and cash equivalents         | \$ 322.3                                        | \$ 322.3                   | \$ 322.3                                                       | \$ —                                    |
| Derivative financial instruments: |                                                 |                            |                                                                |                                         |
| Assets                            | 6.4                                             | 6.4                        | —                                                              | 6.4                                     |
| Liabilities                       | 36.3                                            | 36.3                       | —                                                              | 36.3                                    |
| Debt (a)                          | 1,895.6                                         | 1,725.3                    | 1,617.2                                                        | 108.1                                   |

The estimated fair value of financial instruments at December 31, 2015 was as follows:

| (In millions)                     | Fair Value Measurements at Reporting Date Using |                            |                                                                |                                         |
|-----------------------------------|-------------------------------------------------|----------------------------|----------------------------------------------------------------|-----------------------------------------|
|                                   | Total Carrying Amount                           | Total Estimated Fair Value | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Observable Inputs (Level 2) |
| Cash and cash equivalents         | \$ 149.8                                        | \$ 149.8                   | \$ 149.8                                                       | \$ —                                    |
| Derivative financial instruments: |                                                 |                            |                                                                |                                         |
| Assets                            | 2.4                                             | 2.4                        | —                                                              | 2.4                                     |
| Liabilities                       | 71.3                                            | 71.3                       | —                                                              | 71.3                                    |
| Debt (a)                          | 1,505.2                                         | 969.7                      | 964.5                                                          | 5.2                                     |

(a) The total carrying amount for debt excludes debt issuance costs related to the recognized debt liability which is presented in the consolidated balance sheet as a direct reduction from the carrying amount of the debt liability.

In accordance with accounting standards, fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants at the measurement date. Accounting standards established three levels of a fair value hierarchy that prioritizes the inputs used to measure fair value. This hierarchy requires entities to maximize the use of observable inputs and minimize the use of unobservable inputs. The three levels of inputs used to measure fair value are as follows:

Level 1 – Quoted prices in active markets for identical assets or liabilities.

Level 2 – Observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3 – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets and liabilities. This includes certain pricing models, discounted cash flow methodologies and similar techniques that use significant unobservable inputs.

The availability of observable market data is monitored to assess the appropriate classification of financial instruments within the fair value hierarchy. Changes in economic conditions or model-based valuation techniques may require the transfer of financial instruments from one fair value level to another. In such instances, the transfer is reported at the beginning of the reporting period. No transfers between levels were reported in 2016 or 2015.

The following methods and assumptions were used by the Company in estimating the fair value of its financial instruments:

Cash and cash equivalents: Fair value was determined using Level 1 information.

Derivative financial instruments: Fair values for derivatives were measured using exchange-traded prices for the hedged items. The fair value was determined using Level 2 information, including consideration of counterparty risk and the Company's credit risk.

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Short-term and long-term debt: The fair values of the Company's publicly traded debt were based on Level 1 information. The fair values of the other short-term and long-term debt were determined using Level 2 information. Note 7. Pension Plans and Other Postretirement Benefits

The Company has defined benefit pension plans or defined contribution retirement plans covering substantially all employees. Benefits under the defined benefit pension plans are generally based on years of service and/or final average pay. The Company funds the U.S. pension plans in accordance with the Employee Retirement Income Security Act of 1974, as amended, and the Internal Revenue Code.

The Company also sponsors several postretirement plans covering certain salaried and hourly employees. The plans provide health care and life insurance benefits for eligible retirees. In most retiree health care plans, Company contributions towards premiums are capped based on the cost as of a certain date, thereby creating a defined contribution. For the non-collectively bargained plans, the Company maintains the right to amend or terminate the plans at its discretion.

For the three month periods ended June 30, 2016 and 2015, the components of pension and other postretirement benefit expense for the Company's defined benefit plans included the following (in millions):

|                                                 | Pension<br>Benefits               |        | Other<br>Postretirement<br>Benefits |         |
|-------------------------------------------------|-----------------------------------|--------|-------------------------------------|---------|
|                                                 | Three months<br>ended June<br>30, |        | Three months<br>ended June 30,      |         |
|                                                 | 2016                              | 2015   | 2016                                | 2015    |
| Service cost - benefits earned during the year  | \$5.1                             | \$5.7  | \$ 0.7                              | \$ 0.7  |
| Interest cost on benefits earned in prior years | 31.3                              | 30.2   | 3.9                                 | 4.5     |
| Expected return on plan assets                  | (37.1 )                           | (42.0) | —                                   | —       |
| Amortization of prior service cost (credit)     | 0.3                               | 0.3    | (0.8 )                              | 1.2     |
| Amortization of net actuarial loss              | 16.4                              | 15.1   | 2.4                                 | 3.6     |
| Total retirement benefit expense                | \$16.0                            | \$9.3  | \$ 6.2                              | \$ 10.0 |

For the six month periods ended June 30, 2016 and 2015, the components of pension and other postretirement benefit expense for the Company's defined benefit plans included the following (in millions):

|                                                 | Pension<br>Benefits          |         | Other<br>Postretirement<br>Benefits |         |
|-------------------------------------------------|------------------------------|---------|-------------------------------------|---------|
|                                                 | Six months<br>ended June 30, |         | Six months<br>ended June 30,        |         |
|                                                 | 2016                         | 2015    | 2016                                | 2015    |
| Service cost - benefits earned during the year  | \$10.3                       | \$11.4  | \$ 1.3                              | \$ 1.4  |
| Interest cost on benefits earned in prior years | 62.7                         | 60.5    | 8.0                                 | 9.0     |
| Expected return on plan assets                  | (74.3 )                      | (84.1 ) | —                                   | —       |
| Amortization of prior service cost (credit)     | 0.6                          | 0.6     | (0.2 )                              | 2.4     |
| Amortization of net actuarial loss              | 32.7                         | 30.2    | 4.8                                 | 7.2     |
| Total retirement benefit expense                | \$32.0                       | \$18.6  | \$ 13.9                             | \$ 20.0 |

On March 4, 2016, the Company announced that it had reached a four-year labor agreement with the United Steel, Paper and Forestry, Rubber, Manufacturing, Energy, Allied Industrial and Service Workers International Union (USW) covering USW-represented employees of its ATI Flat Rolled Products business unit and at two locations in the High Performance Materials & Components business segment. The new labor agreement included changes to several retirement benefit programs, including a freeze to new entrants to ATI's defined benefit pension plan, the elimination of defined benefit retiree healthcare for new employees, and changes in the levels of profit-based contributions for retiree medical benefits. The Company remeasured its other postretirement benefit obligation as of the March 1, 2016 contract effective date using a 4.05% discount rate, compared to a 4.50% discount rate as of December 31, 2015.

Based on the remeasurement, other postretirement benefit liabilities decreased \$22.5 million, and other postretirement benefit expense will decrease by \$7.5 million in the March through December 2016 period.

In July 2016, the Company made a \$115 million contribution to its U.S. defined benefit pension plan and expects to use additional proceeds from its recent convertible debt issuance to meet future pension funding requirements.

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## Note 8. Income Taxes

Second quarter 2016 results included a benefit for income taxes of \$25.9 million, or 62.6% of the loss before income taxes, compared to a benefit for income taxes of \$7.7 million, or 35.6% of the loss before income taxes, for the comparable 2015 period. The 2016 effective tax rate was impacted by revisions to projections of full year 2016 results, as well as the Company's inability to record a tax benefit on certain state tax attributes. Income taxes in the second quarter of 2016 included discrete tax benefits of \$2.8 million and income taxes in the second quarter of 2015 included discrete tax expense of \$0.7 million.

For the first six months of 2016, the benefit for income taxes was \$60.1 million, or 34.6% of the loss before income taxes, compared to a provision for income taxes of \$0.3 million, for the 2015 comparable period. The first six months of 2016 included discrete tax benefits of \$3.6 million and income taxes in the first six months of 2015 included discrete tax expense of \$0.9 million, primarily associated with adjustments to foreign taxes.

## Note 9. Business Segments

The Company operates in two business segments: High Performance Materials & Components and Flat Rolled Products. The measure of segment operating profit, which is used to analyze the performance and results of the business segments, excludes all effects of LIFO inventory accounting and any related changes in net realizable value inventory reserves which offset the Company's aggregate net debit LIFO valuation balance, income taxes, corporate expenses, net interest expense, closed company expenses and restructuring costs, if any. Management believes segment operating profit, as defined, provides an appropriate measure of controllable operating results at the business segment level. Following is certain financial information with respect to the Company's business segments for the periods indicated (in millions):

|                                         | Three months<br>ended June 30, |           | Six months ended<br>June 30, |           |
|-----------------------------------------|--------------------------------|-----------|------------------------------|-----------|
|                                         | 2016                           | 2015      | 2016                         | 2015      |
| Total sales:                            |                                |           |                              |           |
| High Performance Materials & Components | \$511.1                        | \$533.5   | \$1,019.0                    | \$1,098.4 |
| Flat Rolled Products                    | 324.3                          | 533.5     | 605.5                        | 1,138.2   |
|                                         | 835.4                          | 1,067.0   | 1,624.5                      | 2,236.6   |
| Intersegment sales:                     |                                |           |                              |           |
| High Performance Materials & Components | 12.7                           | 22.4      | 27.6                         | 44.5      |
| Flat Rolled Products                    | 12.2                           | 22.1      | 28.9                         | 44.1      |
|                                         | 24.9                           | 44.5      | 56.5                         | 88.6      |
| Sales to external customers:            |                                |           |                              |           |
| High Performance Materials & Components | 498.4                          | 511.1     | 991.4                        | 1,053.9   |
| Flat Rolled Products                    | 312.1                          | 511.4     | 576.6                        | 1,094.1   |
|                                         | \$810.5                        | \$1,022.5 | \$1,568.0                    | \$2,148.0 |
| Operating profit (loss):                |                                |           |                              |           |
| High Performance Materials & Components | \$38.8                         | \$44.4    | \$67.9                       | \$117.3   |
| Flat Rolled Products                    | (31.8 )                        | (23.2 )   | (141.4 )                     | (30.0 )   |
| Total operating profit (loss)           | 7.0                            | 21.2      | (73.5 )                      | 87.3      |
| LIFO and net realizable value reserves  | 0.4                            | 0.2       | 0.4                          | 0.2       |
| Corporate expenses                      | (11.8 )                        | (10.1 )   | (22.8 )                      | (22.9 )   |
| Closed company and other expenses       | (5.7 )                         | (6.1 )    | (9.2 )                       | (12.1 )   |
| Restructuring charges                   | (1.0 )                         | —         | (10.0 )                      | —         |
| Interest expense, net                   | (30.3 )                        | (26.8 )   | (58.6 )                      | (53.5 )   |
| Loss before income taxes                | \$(41.4 )                      | \$(21.6 ) | \$(173.7 )                   | \$(1.0 )  |

The first six months of 2016 include \$10.0 million of restructuring charges for severance obligations. During the first quarter of 2016, a \$9.0 million charge was recorded for severance obligations in the Flat Rolled Products (FRP) operations, with the reduction of approximately one-third of FRP's salaried workforce through the elimination of over

250 positions, which is expected to be completed by the end of 2016. During the second quarter of 2016, an additional \$1.0 million charge was recorded for severance obligations for approximately 20 employees in the High Performance Materials & Components segment. These severance charges were excluded from segment operating results. Reserves for restructuring charges at June 30, 2016 were approximately \$11 million, consisting of severance charges and idling costs incurred in both 2015 and 2016, the majority of which are expected to be paid in 2016.

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## Note 10. Redeemable Noncontrolling Interest

During the first six months of 2016, the 15.0% redeemable noncontrolling interest in ATI Flowform Products was purchased by ATI at the \$12.1 million acquisition date carrying value, resulting in no remaining redeemable noncontrolling interest held in ATI Flowform Products as of June 30, 2016.

## Note 11. Per Share Information

The following table sets forth the computation of basic and diluted loss per common share:

| (In millions, except per share amounts)                                                                      | Three months ended |          | Six months ended |          |
|--------------------------------------------------------------------------------------------------------------|--------------------|----------|------------------|----------|
|                                                                                                              | June 30, 2016      | 2015     | June 30, 2016    | 2015     |
| Numerator:                                                                                                   |                    |          |                  |          |
| Numerator for basic loss per common share –                                                                  |                    |          |                  |          |
| Loss attributable to ATI                                                                                     | \$(18.8)           | \$(16.4) | \$(120.0)        | \$(6.4 ) |
| Redeemable noncontrolling interest (Note 10)                                                                 | —                  | —        | —                | (0.1 )   |
| Effect of dilutive securities:                                                                               |                    |          |                  |          |
| 4.75% Convertible Senior Notes due 2022                                                                      | —                  | —        | —                | —        |
| Numerator for diluted loss per common share –                                                                |                    |          |                  |          |
| Loss attributable to ATI after assumed conversions                                                           | \$(18.8)           | \$(16.4) | \$(120.0)        | \$(6.5 ) |
| Denominator:                                                                                                 |                    |          |                  |          |
| Denominator for basic net loss per common share – weighted average shares                                    | 107.3              | 107.3    | 107.3            | 107.2    |
| Effect of dilutive securities:                                                                               |                    |          |                  |          |
| Share-based compensation                                                                                     | —                  | —        | —                | —        |
| 4.75% Convertible Senior Notes due 2022                                                                      | —                  | —        | —                | —        |
| Denominator for diluted net loss per common share – adjusted weighted average shares and assumed conversions | 107.3              | 107.3    | 107.3            | 107.2    |
| Basic loss attributable to ATI per common share                                                              | \$(0.18)           | \$(0.15) | \$(1.12 )        | \$(0.06) |
| Diluted loss attributable to ATI per common share                                                            | \$(0.18)           | \$(0.15) | \$(1.12 )        | \$(0.06) |

Common stock that would be issuable upon the assumed conversion of the 2022 Convertible Notes and other option equivalents and contingently issuable shares are excluded from the computation of contingently issuable shares, and therefore, from the denominator for diluted earnings per share, if the effect of inclusion is anti-dilutive. There were 9.3 million and 5.0 million anti-dilutive shares for the three and six month periods ended June 30, 2016, respectively. There were 1.2 million and 1.0 million anti-dilutive shares for the three and six month periods ended June 30, 2015, respectively.

## Note 12. Financial Information for Subsidiary and Guarantor Parent

The payment obligations under the \$150 million 6.95% debentures due 2025 issued by Allegheny Ludlum, LLC (the “Subsidiary”) are fully and unconditionally guaranteed by Allegheny Technologies Incorporated (the “Guarantor Parent”). In accordance with positions established by the Securities and Exchange Commission, the following financial information sets forth separately financial information with respect to the Subsidiary, the Non-guarantor Subsidiaries and the Guarantor Parent. The principal elimination entries eliminate investments in subsidiaries and certain intercompany balances and transactions.

ATI is the plan sponsor for the U.S. qualified defined benefit pension plan (the “Plan”) which covers certain current and former employees of the Subsidiary and the Non-guarantor Subsidiaries. As a result, the balance sheets presented for the Subsidiary and the Non-guarantor Subsidiaries do not include any Plan assets or liabilities, or the related deferred taxes. The Plan assets, liabilities and related deferred taxes and pension income or expense are recognized by the Guarantor Parent. Management and royalty fees charged to the Subsidiary and to the Non-guarantor Subsidiaries by the Guarantor Parent have been excluded solely for purposes of this presentation.

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Allegheny Technologies Incorporated  
Financial Information for Subsidiary and Guarantor Parent  
Balance Sheets  
June 30, 2016

| (In millions)                                         | Guarantor<br>Parent | Subsidiary | Non-guarantor<br>Subsidiaries | Eliminations  | Consolidated |
|-------------------------------------------------------|---------------------|------------|-------------------------------|---------------|--------------|
| Assets:                                               |                     |            |                               |               |              |
| Cash and cash equivalents                             | \$ 0.4              | \$ 3.9     | \$ 318.0                      | \$ —          | \$ 322.3     |
| Accounts receivable, net                              | 0.1                 | 121.0      | 371.4                         | —             | 492.5        |
| Intercompany notes receivable                         | —                   | —          | 2,740.3                       | (2,740.3 )    | —            |
| Inventories, net                                      | —                   | 141.4      | 952.9                         | —             | 1,094.3      |
| Prepaid expenses and other current assets             | 12.3                | 7.0        | 24.0                          | —             | 43.3         |
| Total current assets                                  | 12.8                | 273.3      | 4,406.6                       | (2,740.3 )    | 1,952.4      |
| Property, plant and equipment, net                    | 1.7                 | 1,590.8    | 1,366.4                       | —             | 2,958.9      |
| Goodwill                                              | —                   | —          | 646.9                         | —             | 646.9        |
| Intercompany notes receivable                         | —                   | —          | 200.0                         | (200.0 )      | —            |
| Investment in subsidiaries                            | 5,814.7             | 37.7       | —                             | (5,852.4 )    | —            |
| Other assets                                          | 16.8                | 26.4       | 259.6                         | —             | 302.8        |
| Total assets                                          | \$ 5,846.0          | \$ 1,928.2 | \$ 6,879.5                    | \$ (8,792.7 ) | \$ 5,861.0   |
| Liabilities and stockholders' equity:                 |                     |            |                               |               |              |
| Accounts payable                                      | \$ 3.8              | \$ 117.9   | \$ 186.5                      | \$ —          | \$ 308.2     |
| Accrued liabilities                                   | 36.5                | 90.6       | 163.7                         | —             | 290.8        |
| Intercompany notes payable                            | 1,240.9             | 1,499.4    | —                             | (2,740.3 )    | —            |
| Short-term debt and current portion of long-term debt | 0.7                 | 0.3        | 5.7                           | —             | 6.7          |
| Total current liabilities                             | 1,281.9             | 1,708.2    | 355.9                         | (2,740.3 )    | 605.7        |
| Long-term debt                                        | 1,620.4             | 150.0      | 99.7                          | —             | 1,870.1      |
| Intercompany notes payable                            | —                   | 200.0      | —                             | (200.0 )      | —            |
| Accrued postretirement benefits                       | —                   | 246.8      | 69.7                          | —             | 316.5        |
| Pension liabilities                                   | 775.2               | 4.8        | 46.7                          | —             | 826.7        |
| Deferred income taxes                                 | 52.8                | —          | —                             | —             | 52.8         |
| Other long-term liabilities                           | 16.4                | 19.1       | 54.4                          | —             | 89.9         |
| Total liabilities                                     | 3,746.7             | 2,328.9    | 626.4                         | (2,940.3 )    | 3,761.7      |
| Total stockholders' equity (deficit)                  | 2,099.3             | (400.7 )   | 6,253.1                       | (5,852.4 )    | 2,099.3      |
| Total liabilities and stockholders' equity            | \$ 5,846.0          | \$ 1,928.2 | \$ 6,879.5                    | \$ (8,792.7 ) | \$ 5,861.0   |



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Allegheny Technologies Incorporated  
Financial Information for Subsidiary and Guarantor Parent  
Statements of Operations and Comprehensive Income  
For the three months ended June 30, 2016

| (In millions)                                                                    | Guarantor<br>Parent | Subsidiary | Non-guarantor<br>Subsidiaries | Eliminations | Consolidated |
|----------------------------------------------------------------------------------|---------------------|------------|-------------------------------|--------------|--------------|
| Sales                                                                            | \$ —                | \$ 260.9   | \$ 549.6                      | \$ —         | \$ 810.5     |
| Cost of sales                                                                    | 9.6                 | 286.9      | 465.8                         | —            | 762.3        |
| Gross profit (loss)                                                              | (9.6 )              | (26.0 )    | 83.8                          | —            | 48.2         |
| Selling and administrative expenses                                              | 20.6                | 4.9        | 33.8                          | —            | 59.3         |
| Restructuring charges                                                            | —                   | —          | 1.0                           | —            | 1.0          |
| Operating income (loss)                                                          | (30.2 )             | (30.9 )    | 49.0                          | —            | (12.1 )      |
| Interest income (expense), net                                                   | (33.7 )             | (17.6 )    | 21.0                          | —            | (30.3 )      |
| Other income (loss) including equity in income of<br>unconsolidated subsidiaries | 22.5                | 0.3        | 0.9                           | (22.7 )      | 1.0          |
| Income (loss) before income tax provision (benefit)                              | (41.4 )             | (48.2 )    | 70.9                          | (22.7 )      | (41.4 )      |
| Income tax provision (benefit)                                                   | (25.9 )             | (17.6 )    | 25.8                          | (8.2 )       | (25.9 )      |
| Net income (loss)                                                                | (15.5 )             | (30.6 )    | 45.1                          | (14.5 )      | (15.5 )      |
| Less: Net income attributable to noncontrolling interests                        | —                   | —          | 3.3                           | —            | 3.3          |
| Net income (loss) attributable to ATI                                            | \$ (15.5 )          | \$ (30.6 ) | \$ 41.8                       | \$ (14.5 )   | \$ (18.8 )   |
| Comprehensive income (loss) attributable to ATI                                  | \$ 4.2              | \$ (29.3 ) | \$ 33.7                       | \$ (6.2 )    | \$ 2.4       |

Allegheny Technologies Incorporated  
Financial Information for Subsidiary and Guarantor Parent  
Statements of Operations and Comprehensive Income  
For the six months ended June 30, 2016

| (In millions)                                                                    | Guarantor<br>Parent | Subsidiary  | Non-guarantor<br>Subsidiaries | Eliminations | Consolidated |
|----------------------------------------------------------------------------------|---------------------|-------------|-------------------------------|--------------|--------------|
| Sales                                                                            | \$ —                | \$ 474.7    | \$ 1,093.3                    | \$ —         | \$ 1,568.0   |
| Cost of sales                                                                    | 29.0                | 585.4       | 938.6                         | —            | 1,553.0      |
| Gross profit (loss)                                                              | (29.0 )             | (110.7 )    | 154.7                         | —            | 15.0         |
| Selling and administrative expenses                                              | 42.5                | 14.6        | 64.8                          | —            | 121.9        |
| Restructuring charges                                                            | —                   | 9.0         | 1.0                           | —            | 10.0         |
| Operating income (loss)                                                          | (71.5 )             | (134.3 )    | 88.9                          | —            | (116.9 )     |
| Interest income (expense), net                                                   | (64.9 )             | (31.7 )     | 38.0                          | —            | (58.6 )      |
| Other income (loss) including equity in income of<br>unconsolidated subsidiaries | (37.3 )             | 0.4         | 1.7                           | 37.0         | 1.8          |
| Income (loss) before income tax provision (benefit)                              | (173.7 )            | (165.6 )    | 128.6                         | 37.0         | (173.7 )     |
| Income tax provision (benefit)                                                   | (60.1 )             | (61.0 )     | 49.5                          | 11.5         | (60.1 )      |
| Net income (loss)                                                                | (113.6 )            | (104.6 )    | 79.1                          | 25.5         | (113.6 )     |
| Less: Net income attributable to noncontrolling interests                        | —                   | —           | 6.4                           | —            | 6.4          |
| Net income (loss) attributable to ATI                                            | \$ (113.6 )         | \$ (104.6 ) | \$ 72.7                       | \$ 25.5      | \$ (120.0 )  |
| Comprehensive income (loss) attributable to ATI                                  | \$ (75.8 )          | \$ (87.2 )  | \$ 61.0                       | \$ 22.8      | \$ (79.2 )   |

Table of ContentsCondensed Statements of Cash Flows  
For the six months ended June 30, 2016

| (In millions)                                         | Guarantor<br>Parent | Subsidiary  | Non-guarantor<br>Subsidiaries | Eliminations | Consolidated |
|-------------------------------------------------------|---------------------|-------------|-------------------------------|--------------|--------------|
| Cash flows provided by (used in) operating activities | \$ (50.5 )          | \$ (166.8 ) | \$ 183.7                      | \$ —         | \$ (33.6 )   |
| Investing Activities:                                 |                     |             |                               |              |              |
| Purchases of property, plant and equipment            | (0.3 )              | (85.3 )     | (59.7 )                       | —            | (145.3 )     |
| Net receipts/(payments) on intercompany activity      | —                   | —           | (43.5 )                       | 43.5         | —            |
| Asset disposals and other                             | —                   | —           | 1.8                           | —            | 1.8          |
| Cash flows provided by (used in) investing activities | (0.3 )              | (85.3 )     | (101.4 )                      | 43.5         | (143.5 )     |
| Financing Activities:                                 |                     |             |                               |              |              |
| Borrowings on long-term debt                          | 287.5               | —           | 100.0                         | —            | 387.5        |
| Payments on long-term debt and capital leases         | (0.3 )              | (0.1 )      | (0.2 )                        | —            | (0.6 )       |
| Net borrowings under credit facilities                | —                   | —           | 2.5                           | —            | 2.5          |
| Debt issuance costs                                   | (9.4 )              | —           | (1.0 )                        | —            | (10.4 )      |
| Net receipts/(payments) on intercompany activity      | (209.8 )            | 253.3       | —                             | (43.5 )      | —            |
| Dividends paid to stockholders                        | (17.2 )             | —           | —                             | —            | (17.2 )      |
| Acquisition of noncontrolling interests               | —                   | —           | (12.2 )                       | —            | (12.2 )      |
| Cash flows provided by (used in) financing activities | 50.8                | 253.2       | 89.1                          | (43.5 )      | 349.6        |
| Increase (decrease) in cash and cash equivalents      | \$ —                | \$ 1.1      | \$ 171.4                      | \$ —         | \$ 172.5     |

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Allegheny Technologies Incorporated  
Financial Information for Subsidiary and Guarantor Parent  
Balance Sheets  
December 31, 2015

| (In millions)                                         | Guarantor<br>Parent | Subsidiary | Non-guarantor<br>Subsidiaries | Eliminations  | Consolidated |
|-------------------------------------------------------|---------------------|------------|-------------------------------|---------------|--------------|
| Assets:                                               |                     |            |                               |               |              |
| Cash and cash equivalents                             | \$ 0.4              | \$ 2.8     | \$ 146.6                      | \$ —          | \$ 149.8     |
| Accounts receivable, net                              | 0.1                 | 100.3      | 299.9                         | —             | 400.3        |
| Intercompany notes receivable                         | —                   | —          | 2,601.5                       | (2,601.5 )    | —            |
| Inventories, net                                      | —                   | 239.9      | 1,031.7                       | —             | 1,271.6      |
| Prepaid expenses and other current assets             | 9.3                 | 3.8        | 32.8                          | —             | 45.9         |
| Total current assets                                  | 9.8                 | 346.8      | 4,112.5                       | (2,601.5 )    | 1,867.6      |
| Property, plant and equipment, net                    | 2.2                 | 1,559.9    | 1,366.1                       | —             | 2,928.2      |
| Goodwill                                              | —                   | —          | 651.4                         | —             | 651.4        |
| Intercompany notes receivable                         | —                   | —          | 200.0                         | (200.0 )      | —            |
| Investment in subsidiaries                            | 5,742.5             | 37.7       | —                             | (5,780.2 )    | —            |
| Other assets                                          | 13.4                | 23.0       | 268.1                         | —             | 304.5        |
| Total assets                                          | \$ 5,767.9          | \$ 1,967.4 | \$ 6,598.1                    | \$ (8,581.7 ) | \$ 5,751.7   |
| Liabilities and stockholders' equity:                 |                     |            |                               |               |              |
| Accounts payable                                      | \$ 4.8              | \$ 171.1   | \$ 204.9                      | \$ —          | \$ 380.8     |
| Accrued liabilities                                   | 42.1                | 74.0       | 185.7                         | —             | 301.8        |
| Intercompany notes payable                            | 1,325.4             | 1,276.1    | —                             | (2,601.5 )    | —            |
| Short-term debt and current portion of long-term debt | 0.7                 | 0.1        | 3.1                           | —             | 3.9          |
| Total current liabilities                             | 1,373.0             | 1,521.3    | 393.7                         | (2,601.5 )    | 686.5        |
| Long-term debt                                        | 1,341.7             | 149.7      | 0.4                           | —             | 1,491.8      |
| Intercompany notes payable                            | —                   | 200.0      | —                             | (200.0 )      | —            |
| Accrued postretirement benefits                       | —                   | 280.0      | 79.2                          | —             | 359.2        |
| Pension liabilities                                   | 778.0               | 5.2        | 50.6                          | —             | 833.8        |
| Deferred income taxes                                 | 75.6                | —          | —                             | —             | 75.6         |
| Other long-term liabilities                           | 15.2                | 20.7       | 72.4                          | —             | 108.3        |
| Total liabilities                                     | 3,583.5             | 2,176.9    | 596.3                         | (2,801.5 )    | 3,555.2      |
| Redeemable noncontrolling interest                    | —                   | —          | 12.1                          | —             | 12.1         |
| Total stockholders' equity (deficit)                  | 2,184.4             | (209.5 )   | 5,989.7                       | (5,780.2 )    | 2,184.4      |
| Total liabilities and stockholders' equity            | \$ 5,767.9          | \$ 1,967.4 | \$ 6,598.1                    | \$ (8,581.7 ) | \$ 5,751.7   |



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Allegheny Technologies Incorporated  
Financial Information for Subsidiary and Guarantor Parent  
Statements of Operations and Comprehensive Income  
For the three months ended June 30, 2015

| (In millions)                                                                 | Guarantor<br>Parent | Subsidiary | Non-guarantor<br>Subsidiaries | Eliminations | Consolidated |
|-------------------------------------------------------------------------------|---------------------|------------|-------------------------------|--------------|--------------|
| Sales                                                                         | \$ —                | \$ 436.7   | \$ 585.8                      | \$ —         | \$ 1,022.5   |
| Cost of sales                                                                 | 10.6                | 429.0      | 505.9                         | —            | 945.5        |
| Gross profit (loss)                                                           | (10.6 )             | 7.7        | 79.9                          | —            | 77.0         |
| Selling and administrative expenses                                           | 21.4                | 9.4        | 41.6                          | —            | 72.4         |
| Operating income (loss)                                                       | (32.0 )             | (1.7 )     | 38.3                          | —            | 4.6          |
| Interest income (expense), net                                                | (28.6 )             | (12.5 )    | 14.3                          | —            | (26.8 )      |
| Other income (loss) including equity in income of unconsolidated subsidiaries | 39.0                | 0.2        | 0.5                           | (39.1 )      | 0.6          |
| Income (loss) before income tax provision (benefit)                           | (21.6 )             | (14.0 )    | 53.1                          | (39.1 )      | (21.6 )      |
| Income tax provision (benefit)                                                | (7.7 )              | (4.6 )     | 22.3                          | (17.7 )      | (7.7 )       |
| Net income (loss)                                                             | (13.9 )             | (9.4 )     | 30.8                          | (21.4 )      | (13.9 )      |
| Less: Net income attributable to noncontrolling interests                     | —                   | —          | 2.5                           | —            | 2.5          |
| Net income (loss) attributable to ATI                                         | \$ (13.9 )          | \$ (9.4 )  | \$ 28.3                       | \$ (21.4 )   | \$ (16.4 )   |
| Comprehensive income (loss) attributable to ATI                               | \$ 10.1             | \$ (6.4 )  | \$ 47.4                       | \$ (44.0 )   | \$ 7.1       |

Allegheny Technologies Incorporated  
Financial Information for Subsidiary and Guarantor Parent  
Statements of Operations and Comprehensive Income  
For the six months ended June 30, 2015

| (In millions)                                                                 | Guarantor<br>Parent | Subsidiary | Non-guarantor<br>Subsidiaries | Eliminations | Consolidated |
|-------------------------------------------------------------------------------|---------------------|------------|-------------------------------|--------------|--------------|
| Sales                                                                         | \$ —                | \$ 945.2   | \$ 1,202.8                    | \$ —         | \$ 2,148.0   |
| Cost of sales                                                                 | 12.8                | 933.0      | 1,015.7                       | —            | 1,961.5      |
| Gross profit (loss)                                                           | (12.8 )             | 12.2       | 187.1                         | —            | 186.5        |
| Selling and administrative expenses                                           | 47.2                | 21.1       | 67.2                          | —            | 135.5        |
| Operating income (loss)                                                       | (60.0 )             | (8.9 )     | 119.9                         | —            | 51.0         |
| Interest income (expense), net                                                | (56.6 )             | (24.7 )    | 27.8                          | —            | (53.5 )      |
| Other income (loss) including equity in income of unconsolidated subsidiaries | 115.6               | 0.6        | 1.1                           | (115.8 )     | 1.5          |
| Income (loss) before income tax provision (benefit)                           | (1.0 )              | (33.0 )    | 148.8                         | (115.8 )     | (1.0 )       |
| Income tax provision (benefit)                                                | 0.3                 | (11.2 )    | 56.4                          | (45.2 )      | 0.3          |
| Net income (loss)                                                             | (1.3 )              | (21.8 )    | 92.4                          | (70.6 )      | (1.3 )       |
| Less: Net income attributable to noncontrolling interests                     | —                   | —          | 5.1                           | —            | 5.1          |
| Net income (loss) attributable to ATI                                         | \$ (1.3 )           | \$ (21.8 ) | \$ 87.3                       | \$ (70.6 )   | \$ (6.4 )    |
| Comprehensive income (loss) attributable to ATI                               | \$ 23.1             | \$ (15.5 ) | \$ 85.2                       | \$ (75.1 )   | \$ 17.7      |

Table of ContentsCondensed Statements of Cash Flows  
For the six months ended June 30, 2015

| (In millions)                                         | Guarantor<br>Parent | Subsidiary | Non-guarantor<br>Subsidiaries | Eliminations | Consolidated |
|-------------------------------------------------------|---------------------|------------|-------------------------------|--------------|--------------|
| Cash flows provided by (used in) operating activities | \$ (38.0 )          | \$ (98.1 ) | \$ 227.6                      | \$ —         | \$ 91.5      |
| Investing Activities:                                 |                     |            |                               |              |              |
| Purchases of property, plant and equipment            | —                   | (26.0 )    | (37.3 )                       | —            | (63.3 )      |
| Purchases of businesses, net of cash acquired         | —                   | —          | (0.5 )                        | —            | (0.5 )       |
| Net receipts/(payments) on intercompany activity      | —                   | —          | (206.4 )                      | 206.4        | —            |
| Asset disposals and other                             | —                   | 0.2        | (0.2 )                        | —            | —            |
| Cash flows provided by (used in) investing activities | —                   | (25.8 )    | (244.4 )                      | 206.4        | (63.8 )      |
| Financing Activities:                                 |                     |            |                               |              |              |
| Net receipts/(payments) on intercompany activity      | 81.3                | 125.1      | —                             | (206.4 )     | —            |
| Dividends paid to stockholders                        | (38.6 )             | —          | —                             | —            | (38.6 )      |
| Other                                                 | (1.7 )              | (0.1 )     | (5.9 )                        | —            | (7.7 )       |
| Cash flows provided by (used in) financing activities | 41.0                | 125.0      | (5.9 )                        | (206.4 )     | (46.3 )      |
| Increase (decrease) in cash and cash equivalents      | \$ 3.0              | \$ 1.1     | \$ (22.7 )                    | \$ —         | \$ (18.6 )   |

## Note 13. Accumulated Other Comprehensive Income (Loss)

The changes in accumulated other comprehensive income (loss) (AOCI) by component, net of tax, for the three month period ended June 30, 2016 were as follows (in millions):

|                                           | Post-<br>retirement<br>benefit plans | Currency<br>translation<br>adjustment | Unrealized<br>holding gains<br>on securities | Derivatives | Total      |
|-------------------------------------------|--------------------------------------|---------------------------------------|----------------------------------------------|-------------|------------|
| Attributable to ATI:                      |                                      |                                       |                                              |             |            |
| Balance, March 31, 2016                   | \$ (925.1 )                          | \$ (51.5 )                            | \$ —                                         | —\$ (18.3 ) | \$ (994.9) |
| OCI before reclassifications              | —                                    | (8.3 )                                | —                                            | 16.3        | 8.0        |
| Amounts reclassified from AOCI            | (a) 11.4                             | (b) —                                 | (b) —                                        | —(c) 1.8    | 13.2       |
| Net current-period OCI                    | 11.4                                 | (8.3 )                                | —                                            | 18.1        | 21.2       |
| Balance, June 30, 2016                    | \$ (913.7 )                          | \$ (59.8 )                            | \$ —                                         | —\$ (0.2 )  | \$ (973.7) |
| Attributable to noncontrolling interests: |                                      |                                       |                                              |             |            |
| Balance, March 31, 2016                   | \$ —                                 | \$ 17.9                               | \$ —                                         | —\$ —       | \$ 17.9    |
| OCI before reclassifications              | —                                    | (1.5 )                                | —                                            | —           | (1.5 )     |
| Amounts reclassified from AOCI            | —                                    | (b) —                                 | —                                            | —           | —          |
| Net current-period OCI                    | —                                    | (1.5 )                                | —                                            | —           | (1.5 )     |
| Balance, June 30, 2016                    | \$ —                                 | \$ 16.4                               | \$ —                                         | —\$ —       | \$ 16.4    |

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The changes in AOCI by component, net of tax, for the six month period ended June 30, 2016 were as follows (in millions):

|                                           | Post-<br>retirement<br>benefit plans | Currency<br>translation<br>adjustment | Unrealized<br>holding gains<br>on securities | Derivatives | Total       |
|-------------------------------------------|--------------------------------------|---------------------------------------|----------------------------------------------|-------------|-------------|
| Attributable to ATI:                      |                                      |                                       |                                              |             |             |
| Balance, December 31, 2015                | \$ (951.2 )                          | \$ (47.6 )                            | \$ —                                         | —\$ (15.7 ) | \$(1,014.5) |
| OCI before reclassifications              | 13.9                                 | (12.2 )                               | —                                            | 10.6        | 12.3        |
| Amounts reclassified from AOCI            | (a) 23.6                             | (b) —                                 | (b) —                                        | —(c) 4.9    | 28.5        |
| Net current-period OCI                    | 37.5                                 | (12.2 )                               | —                                            | 15.5        | 40.8        |
| Balance, June 30, 2016                    | \$ (913.7 )                          | \$ (59.8 )                            | \$ —                                         | —\$ (0.2 )  | \$(973.7 )  |
| Attributable to noncontrolling interests: |                                      |                                       |                                              |             |             |
| Balance, December 31, 2015                | \$ —                                 | \$ 19.4                               | \$ —                                         | —\$ —       | \$19.4      |
| OCI before reclassifications              | —                                    | (3.0 )                                | —                                            | —           | (3.0 )      |
| Amounts reclassified from AOCI            | —                                    | (b) —                                 | —                                            | —           | —           |
| Net current-period OCI                    | —                                    | (3.0 )                                | —                                            | —           | (3.0 )      |
| Balance, June 30, 2016                    | \$ —                                 | \$ 16.4                               | \$ —                                         | —\$ —       | \$16.4      |

(a) Amounts were included in net periodic benefit cost for pension and other postretirement benefit plans (see Note 7).

(b) No amounts were reclassified to earnings.

Amounts related to the effective portion of the derivatives are included in cost of goods sold in the period or (c) periods the hedged item affects earnings. Amounts related to the ineffective portion of the derivatives are presented in selling and administrative expenses on the consolidated statement of operations (see Note 5).

The changes in AOCI by component, net of tax, for the three month period ended June 30, 2015 were as follows (in millions):

|                                           | Post-<br>retirement<br>benefit plans | Currency<br>translation<br>adjustment | Unrealized<br>holding gains<br>on securities | Derivatives | Total     |
|-------------------------------------------|--------------------------------------|---------------------------------------|----------------------------------------------|-------------|-----------|
| Attributable to ATI:                      |                                      |                                       |                                              |             |           |
| Balance, March 31, 2015                   | \$ (919.0 )                          | \$ (37.8 )                            | \$ —                                         | \$ 26.0     | \$(930.8) |
| OCI before reclassifications              | —                                    | 18.8                                  | (0.1 )                                       | (6.4 )      | 12.3      |
| Amounts reclassified from AOCI            | (a) 12.5                             | (b) —                                 | (b) —                                        | (c) (1.3 )  | 11.2      |
| Net current-period OCI                    | 12.5                                 | 18.8                                  | (0.1 )                                       | (7.7 )      | 23.5      |
| Balance, June 30, 2015                    | \$ (906.5 )                          | \$ (19.0 )                            | \$ (0.1 )                                    | \$ 18.3     | \$(907.3) |
| Attributable to noncontrolling interests: |                                      |                                       |                                              |             |           |
| Balance, March 31, 2015                   | \$ —                                 | \$ 24.8                               | \$ —                                         | \$ —        | \$24.8    |
| OCI before reclassifications              | —                                    | 0.5                                   | —                                            | —           | 0.5       |
| Amounts reclassified from AOCI            | —                                    | —                                     | —                                            | —           | —         |
| Net current-period OCI                    | —                                    | 0.5                                   | —                                            | —           | \$0.5     |
| Balance, June 30, 2015                    | \$ —                                 | \$ 25.3                               | \$ —                                         | \$ —        | \$25.3    |

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The changes in AOCI by component, net of tax, for the six month period ended June 30, 2015 were as follows (in millions):

|                                           | Post-retirement benefit plans | Currency translation adjustment | Unrealized holding gains on securities | Derivatives | Total     |
|-------------------------------------------|-------------------------------|---------------------------------|----------------------------------------|-------------|-----------|
| Attributable to ATI:                      |                               |                                 |                                        |             |           |
| Balance, December 31, 2014                | \$ (931.5 )                   | \$ (16.2 )                      | \$ —                                   | \$ 16.3     | \$(931.4) |
| OCI before reclassifications              | —                             | (2.8 )                          | (0.1 )                                 | 5.0         | 2.1       |
| Amounts reclassified from AOCI            | (a) 25.0                      | (b) —                           | (b) —                                  | (c) (3.0 )  | 22.0      |
| Net current-period OCI                    | 25.0                          | (2.8 )                          | (0.1 )                                 | 2.0         | 24.1      |
| Balance, June 30, 2015                    | \$ (906.5 )                   | \$ (19.0 )                      | \$ (0.1 )                              | \$ 18.3     | \$(907.3) |
| Attributable to noncontrolling interests: |                               |                                 |                                        |             |           |
| Balance, December 31, 2014                | \$ —                          | \$ 25.0                         | \$ —                                   | \$ —        | \$25.0    |
| OCI before reclassifications              | —                             | 0.3                             | —                                      | —           | 0.3       |
| Amounts reclassified from AOCI            | —                             | (b) —                           | —                                      | —           | —         |
| Net current-period OCI                    | —                             | 0.3                             | —                                      | —           | \$0.3     |
| Balance, June 30, 2015                    | \$ —                          | \$ 25.3                         | \$ —                                   | \$ —        | \$25.3    |

(a) Amounts were included in net periodic benefit cost for pension and other postretirement benefit plans (see Note 7).

(b) No amounts were reclassified to earnings.

Amounts related to the effective portion of the derivatives are included in cost of goods sold in the period or (c) periods the hedged item affects earnings. Amounts related to the ineffective portion of the derivatives are presented in selling and administrative expenses on the consolidated statement of operations (see Note 5).

Reclassifications out of AOCI for the three and six month periods ended June 30, 2016 and 2015 were as follows:

| Details about AOCI Components<br>(In millions) | Amount reclassified from AOCI    |                                  |                                |                                | Affected line item in the<br>statements of operations |
|------------------------------------------------|----------------------------------|----------------------------------|--------------------------------|--------------------------------|-------------------------------------------------------|
|                                                | Three months ended June 30, 2016 | Three months ended June 30, 2015 | Six months ended June 30, 2016 | Six months ended June 30, 2015 |                                                       |
| Postretirement benefit plans                   |                                  |                                  |                                |                                |                                                       |
| Prior service (cost) credit                    | \$0.5                            | \$(1.5 )                         | \$(0.4 )                       | \$(3.0 )                       | (a)                                                   |
| Actuarial losses                               | (18.8 )                          | (18.7 )                          | (37.5 )                        | (37.4 )                        | (a)                                                   |
|                                                | (18.3 )                          | (20.2 )                          | (37.9 )                        | (40.4 )                        | (c)                                                   |
|                                                | (6.9 )                           | (7.7 )                           | (14.3 )                        | (15.4 )                        |                                                       |
|                                                | \$(11.4 )                        | \$(12.5 )                        | \$(23.6 )                      | \$(25.0 )                      | Net of tax                                            |
| Derivatives                                    |                                  |                                  |                                |                                |                                                       |
| Nickel and other raw material contracts        | \$(6.1 )                         | \$(3.9 )                         | \$(12.4 )                      | \$(7.5 )                       | (b)                                                   |
| Natural gas contracts                          | (4.7 )                           | (3.9 )                           | (11.0 )                        | (7.8 )                         | (b)                                                   |
| Electricity contracts                          | —                                | —                                | (b) —                          | (0.2 )                         | (b)                                                   |
| Foreign exchange contracts                     | 7.9                              | 9.9                              | (b) 15.5                       | 20.3                           | (b)                                                   |
|                                                | (2.9 )                           | 2.1                              | (c) (7.9 )                     | 4.8                            | (c)                                                   |
|                                                | (1.1 )                           | 0.8                              | (3.0 )                         | 1.8                            |                                                       |
|                                                | \$(1.8 )                         | \$1.3                            | \$(4.9 )                       | \$3.0                          | Net of tax                                            |

(a) Amounts are included in the computation of pension and other postretirement benefit expense, which is reported in both cost of goods sold and selling and administrative expenses. For additional information, see Note 7.

Amounts related to the effective portion of the derivatives are included in cost of goods sold in the period or (b) periods the hedged item affects earnings. Amounts related to the ineffective portion of the derivatives are presented in selling and administrative expenses on the consolidated statement of operations (see Note 5).

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For pretax items, positive amounts are income and negative amounts are expense in terms of the impact to net (c)income. Tax effects are presented in conformity with ATI's presentation in the consolidated statements of operations.

### Note 14. Commitments and Contingencies

The Company is subject to various domestic and international environmental laws and regulations that govern the discharge of pollutants and disposal of wastes, and which may require that it investigate and remediate the effects of the release or disposal of materials at sites associated with past and present operations. The Company could incur substantial cleanup costs, fines, and civil or criminal sanctions, third party property damage or personal injury claims as a result of violations or liabilities under these laws or noncompliance with environmental permits required at its facilities. The Company is currently involved in the investigation and remediation of a number of its current and former sites, as well as third party sites.

Environmental liabilities are recorded when the Company's liability is probable and the costs are reasonably estimable. In many cases, however, the Company is not able to determine whether it is liable or, if liability is probable, to reasonably estimate the loss or range of loss. Estimates of the Company's liability remain subject to additional uncertainties, including the nature and extent of site contamination, available remediation alternatives, the extent of corrective actions that may be required, and the number, participation, and financial condition of other potentially responsible parties (PRPs). The Company adjusts its accruals to reflect new information as appropriate. Future adjustments could have a material adverse effect on the Company's consolidated results of operations in a given period, but the Company cannot reliably predict the amounts of such future adjustments.

At June 30, 2016, the Company's reserves for environmental remediation obligations totaled approximately \$14 million, of which \$7 million was included in other current liabilities. The reserve includes estimated probable future costs of \$3 million for federal Superfund and comparable state-managed sites; \$9 million for formerly owned or operated sites for which the Company has remediation or indemnification obligations; \$1 million for owned or controlled sites at which Company operations have been discontinued; and \$1 million for sites utilized by the Company in its ongoing operations. The timing of expenditures depends on a number of factors that vary by site. The Company expects that it will expend present accruals over many years and that remediation of all sites with which it has been identified will be completed within thirty years. The Company continues to evaluate whether it may be able to recover a portion of past and future costs for environmental liabilities from third parties and to pursue such recoveries where appropriate.

Based on currently available information, it is reasonably possible that costs for recorded matters may exceed the Company's recorded reserves by as much as \$17 million. Future investigation or remediation activities may result in the discovery of additional hazardous materials, potentially higher levels of contamination than discovered during prior investigation, and may impact costs of the success or lack thereof in remedial solutions. Therefore, future developments, administrative actions or liabilities relating to environmental matters could have a material adverse effect on the Company's consolidated financial condition or results of operations.

See Note 20. Commitments and Contingencies to the Company's consolidated financial statements in the Company's Annual Report on Form 10-K for its fiscal year ended December 31, 2015 for a discussion of legal proceedings affecting the Company.

On February 11, 2016, the National Labor Relations Board (NLRB) served a complaint on ATI alleging that the Company violated the National Labor Relations Act in connection with its collective bargaining negotiations with the USW and by locking out its USW-represented employees effective August 15, 2015. On March 4, 2016, the USW ratified a four-year labor agreement covering USW-represented employees of its ATI Flat Rolled Products business unit and at two locations in the High Performance Materials & Components business segment. All charges and the complaint pending with the NLRB have been withdrawn.

A number of other lawsuits, claims and proceedings have been or may be asserted against the Company relating to the conduct of its currently and formerly owned businesses, including those pertaining to product liability, patent infringement, commercial, government contracting, construction, employment, employee and retiree benefits, taxes, environmental, health and safety and occupational disease, and stockholder and corporate governance matters. While the outcome of litigation cannot be predicted with certainty, and some of these lawsuits, claims or proceedings may be

determined adversely to the Company, management does not believe that the disposition of any such pending matters is likely to have a material adverse effect on the Company's financial condition or liquidity, although the resolution in any reporting period of one or more of these matters could have a material adverse effect on the Company's consolidated results of operations for that period.

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

#### Overview

ATI is one of the largest and most diversified specialty materials and components producers in the world. We use innovative technologies to offer global markets a wide range of specialty materials solutions. Our products include titanium and titanium alloys, nickel-based alloys and superalloys, zirconium and related alloys, advanced powder alloys, stainless and specialty steel alloys, forgings, castings, components, and machining capabilities. Our specialty materials are produced in a wide range of alloys and product forms and are selected for use in applications that demand materials having exceptional hardness, toughness, strength, resistance to heat, corrosion or abrasion, or a combination of these characteristics. We are a fully integrated supplier, from alloy development, to raw materials (for titanium sponge) to melting and hot-working (for other specialty alloy systems), through highly engineered finished components.

A new four-year labor agreement with employees represented by the United Steel, Paper and Forestry, Rubber, Manufacturing, Energy, Allied Industrial and Service Workers International Union (USW), mainly in our Flat Rolled Products (FRP) business, was ratified on March 4, 2016, and these employees began returning to work in mid-March. The second quarter and first six months 2016 results were negatively impacted by \$22 million and \$48 million, respectively, of costs associated with the work stoppage and return to work of USW-represented employees. These conditions primarily affected the FRP segment. The new labor agreement includes important changes to retirement benefit programs, including a freeze to new entrants to ATI's defined benefit pension plan and the elimination of retiree medical benefits for new employees. As a result of the changes, we will ratably recognize approximately \$8 million of lower retirement benefit expense in the FRP segment in the March through December 2016 period. This benefit change is also expected to favorably impact future years.

Our second quarter 2016 results were sales of \$810.5 million and a loss before tax of \$41.4 million, or (5.1)% of sales, compared to sales of \$1.02 billion and a loss before tax of \$21.6 million, or (2.1)% of sales, for the second quarter 2015. The Company's second quarter 2016 results include a \$1 million severance charge, which is excluded from segment results, as we continue to streamline our High Performance Materials & Components (HPMC) operations. Second quarter 2016 net loss attributable to ATI was \$18.8 million, or \$(0.18) per share, compared to net loss attributable to ATI of \$16.4 million, or \$(0.15) per share, for the second quarter 2015. Second quarter 2016 results reflect an above-normal income tax rate benefit of 62.6%, decreasing the Company's loss by \$11 million compared to the tax benefit that would apply at a standard U.S. federal 35% income tax rate.

Compared to the second quarter 2015, sales decreased 39% in the FRP business segment and 2% in the HPMC business segment, including the effects of declining raw material surcharges within selling prices compared to the second quarter 2015.

Results for the first six months of 2016 were sales of \$1.57 billion and a loss before tax of \$173.7 million, or (11.1)% of sales, compared to sales of \$2.15 billion and a loss before tax of \$1.0 million, for the first six months of 2015. The Company's 2016 results include a \$10.0 million charge for severance obligations, \$9.0 million for the reduction of approximately one-third of FRP's salaried workforce through the elimination of over 250 positions and the remaining \$1.0 million for the HPMC segment as discussed above. The first six months of 2016 net loss attributable to ATI was \$120.0 million, or \$(1.12) per share, compared to a net loss attributable to ATI of \$6.4 million, or \$(0.06) per share, for the first six months of 2015. On a year-to-date basis, ATI's 2016 effective tax rate was 34.6%.

Compared to the first six months of 2015, sales decreased 47% in the FRP business segment and 6% in the HPMC business segment. The lower FRP segment sales are primarily due to lower commodity stainless steel sheet and grain-oriented electrical steel (GOES) flat-rolled products' sales due to the idling of production capacity for these products in early 2016. The HPMC segment reflects stronger sales to the commercial aerospace market, offset by further weakening in demand from the oil & gas/chemical & hydrocarbon processing industry, government aerospace/defense, and the construction and mining equipment markets.

ATI's sales to the aerospace and defense market increased to 51% of total sales in the first six months of 2016, from 37% in the first six months of 2015. This market mix change is driven in large part by the growth of ATI's next-generation mill products, forgings, and castings as well as legacy forgings and castings that are new to ATI, combined with our decision to reduce our production of heavily commoditized stainless sheet and GOES products. As

a result of continuing weak demand, ATI sales to the oil & gas/chemical & hydrocarbon processing market declined significantly to 8% from 18% using the same comparison period.

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Demand from the global aerospace and defense, oil & gas/chemical & hydrocarbon processing industry, electrical energy, automotive and medical markets represented 81% of our sales for the three months ended June 30, 2016 and 82% for the six months ended June 30, 2016. Comparative information for our overall revenues (in millions) by market and their respective percentages of total revenues for the three and six month periods ended June 30, 2016 and 2015 were as follows:

| Market                                               | Three months ended |       |  | Three months ended |       |  |
|------------------------------------------------------|--------------------|-------|--|--------------------|-------|--|
|                                                      | June 30, 2016      |       |  | June 30, 2015      |       |  |
| Aerospace & Defense                                  | \$407.3            | 50 %  |  | \$386.9            | 38 %  |  |
| Oil & Gas/Chemical & Hydrocarbon Processing Industry | 72.4               | 9 %   |  | 173.1              | 17 %  |  |
| Electrical Energy                                    | 64.8               | 8 %   |  | 102.1              | 10 %  |  |
| Automotive                                           | 57.7               | 7 %   |  | 82.2               | 8 %   |  |
| Medical                                              | 54.7               | 7 %   |  | 57.1               | 6 %   |  |
| Subtotal - Key Markets                               | 656.9              | 81 %  |  | 801.4              | 79 %  |  |
| Food Equipment & Appliances                          | 45.6               | 6 %   |  | 64.1               | 6 %   |  |
| Construction/Mining                                  | 42.2               | 5 %   |  | 63.7               | 6 %   |  |
| Electronics/Computers/Communication                  | 22.6               | 3 %   |  | 28.2               | 3 %   |  |
| Transportation                                       | 21.9               | 3 %   |  | 42.5               | 4 %   |  |
| Conversion Services & Other                          | 21.3               | 2 %   |  | 22.6               | 2 %   |  |
| Total                                                | \$810.5            | 100 % |  | \$1,022.5          | 100 % |  |
| Market                                               | Six months ended   |       |  | Six months ended   |       |  |
|                                                      | June 30, 2016      |       |  | June 30, 2015      |       |  |
| Aerospace & Defense                                  | \$804.7            | 51 %  |  | \$794.3            | 37 %  |  |
| Electrical Energy                                    | 138.2              | 9 %   |  | 210.4              | 10 %  |  |
| Oil & Gas/Chemical & Hydrocarbon Processing Industry | 131.4              | 8 %   |  | 383.3              | 18 %  |  |
| Automotive                                           | 109.2              | 7 %   |  | 178.5              | 8 %   |  |
| Medical                                              | 104.4              | 7 %   |  | 115.0              | 5 %   |  |
| Subtotal - Key Markets                               | 1,287.9            | 82 %  |  | 1,681.5            | 78 %  |  |
| Food Equipment & Appliances                          | 76.3               | 5 %   |  | 135.0              | 6 %   |  |
| Construction/Mining                                  | 73.7               | 5 %   |  | 143.8              | 7 %   |  |
| Electronics/Computers/Communication                  | 46.5               | 3 %   |  | 61.5               | 3 %   |  |
| Transportation                                       | 40.1               | 2 %   |  | 82.0               | 4 %   |  |
| Conversion Services & Other                          | 43.5               | 3 %   |  | 44.2               | 2 %   |  |
| Total                                                | \$1,568.0          | 100 % |  | \$2,148.0          | 100 % |  |

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For the second quarter 2016, international sales decreased 25% to \$330 million and represented 41% of total sales, compared to \$441 million or 43% of total sales for the second quarter 2015. This decrease was primarily the result of lower international sales of commodity stainless steel sheet products. ATI's international sales are mostly to the aerospace, oil & gas, chemical & hydrocarbon processing industry, electrical energy, automotive and medical markets. Sales of our high-value products (titanium and titanium alloys, nickel-based alloys and specialty alloys, zirconium and related alloys, precision forgings, castings and components, and precision and engineered strip) excluding GOES represented 84% of total sales for the three months ended June 30, 2016. Comparative information for our major high-value and standard products based on their percentages of our total sales is as follows:

|                                             | Three months ended June 30, 2016 2015 |   |     |   |
|---------------------------------------------|---------------------------------------|---|-----|---|
| High-Value Products                         |                                       |   |     |   |
| Nickel-based alloys and specialty alloys    | 27                                    | % | 28  | % |
| Titanium and titanium alloys                | 19                                    | % | 16  | % |
| Precision forgings, castings and components | 17                                    | % | 13  | % |
| Precision and engineered strip              | 13                                    | % | 13  | % |
| Zirconium and related alloys                | 8                                     | % | 7   | % |
| Total High-Value Products, excluding GOES   | 84                                    | % | 77  | % |
| GOES                                        | 1                                     | % | 4   | % |
| Total High-Value Products, including GOES   | 85                                    | % | 81  | % |
| Standard Products                           |                                       |   |     |   |
| Specialty stainless sheet                   | 4                                     | % | 6   | % |
| Stainless steel sheet                       | 7                                     | % | 9   | % |
| Stainless steel plate and other             | 4                                     | % | 4   | % |
| Total Standard Products                     | 15                                    | % | 19  | % |
| Grand Total                                 | 100                                   | % | 100 | % |

For the first six months of 2016, international sales decreased 29% to \$634 million and represented 40% of total sales, compared to \$895 million or 42% of total sales for the first six months of 2015. This decrease was also primarily the result of lower international sales of commodity stainless steel sheet products. Sales of our high-value products excluding GOES represented 85% of total sales for the six months ended June 30, 2016. Comparative information for our major high-value and standard products based on their percentages of our total sales is as follows:

|                                             | Six months ended June 30, 2016 2015 |   |    |   |
|---------------------------------------------|-------------------------------------|---|----|---|
| High-Value Products                         |                                     |   |    |   |
| Nickel-based alloys and specialty alloys    | 28                                  | % | 29 | % |
| Titanium and titanium alloys                | 20                                  | % | 16 | % |
| Precision forgings, castings and components | 17                                  | % | 13 | % |
| Precision and engineered strip              | 12                                  | % | 12 | % |
| Zirconium and related alloys                | 8                                   | % | 6  | % |
| Total High-Value Products, excluding GOES   | 85                                  | % | 76 | % |
| GOES                                        | 2                                   | % | 4  | % |
| Total High-Value Products, including GOES   | 87                                  | % | 80 | % |
| Standard Products                           |                                     |   |    |   |
| Specialty stainless sheet                   | 4                                   | % | 7  | % |
| Stainless steel sheet                       | 6                                   | % | 10 | % |

|                                 |     |   |     |   |
|---------------------------------|-----|---|-----|---|
| Stainless steel plate and other | 3   | % | 3   | % |
| Total Standard Products         | 13  | % | 20  | % |
| Grand Total                     | 100 | % | 100 | % |

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Total titanium mill product shipments, including Uniti joint venture conversion, were 8.4 million pounds in the second quarter 2016, bringing the first six months of 2016 to a total of 16.6 million pounds. These volumes represent a 9% decrease compared to the second quarter of 2015 and a 13% decrease compared to the first six months of 2015, due to continued weak demand from global industrial markets.

Segment operating profit for the second quarter 2016 was \$7.0 million, or 0.9% of sales, compared to segment operating profit of \$21.2 million, or 2.1% of sales for the second quarter 2015. For the first six months of 2016, segment operating loss was \$73.5 million, or (4.7)% of sales, compared to segment operating profit of \$87.3 million, or 4.1% of sales, for the first six months of 2015. Segment operating profit as a percentage of sales for the three and six month periods ended June 30, 2016 and 2015 was:

|                                         | Three months<br>ended June 30,<br>2016 |        | Six months<br>ended June 30,<br>2015 |        |
|-----------------------------------------|----------------------------------------|--------|--------------------------------------|--------|
| High Performance Materials & Components | 7.8 %                                  | 8.7 %  | 6.8 %                                | 11.1 % |
| Flat Rolled Products                    | (10.2)%                                | (4.5)% | (24.5)%                              | (2.7)% |

Segment operating profit for the second quarter 2016 in the HPMC segment was \$38.8 million, or 7.8% of sales, compared to \$44.4 million, or 8.7% of sales, for the second quarter 2015. HPMC segment results for the second quarter were negatively impacted by \$9 million of high production costs due to low operating rates at our Rowley, UT titanium sponge facility. Segment operating profit for the first six months of 2016 in the HPMC segment was \$67.9 million, or 6.8% of sales, compared to \$117.3 million, or 11.1% of sales, for the first six months of 2015. The FRP segment operating loss for the second quarter 2016 was \$31.8 million, or (10.2)% of sales, compared to a segment operating loss of \$23.2 million, or (4.5)% of sales, for the second quarter 2015. The FRP segment operating loss for the first six months of 2016 was \$141.4 million, or (24.5)% of sales, compared to a segment operating loss of \$30.0 million, or (2.7)% of sales, for the first six months of 2015. FRP was unfavorably impacted by operating costs and inefficiencies as discussed earlier in addition to higher operating costs as we moved through the process of reducing production levels and then idling our two facilities used in the production of commodity stainless sheet and GOES products. In the first quarter 2016, we completed the previously-announced idling of the standard/commodity stainless melt shop and finishing operations at our Flat Rolled Products' Midland, PA facility. The idling of our GOES operations, including the Bagdad, PA facility, was completed during the second quarter of 2016. The restart of these idled operations depends on future business conditions and ATI's ability to earn an acceptable return on invested capital on products manufactured at these facilities.

Our 2016 operating results reflect two differently situated businesses. Our HPMC segment is beginning to realize the benefits of the growth phase of next-generation commercial airplanes and jet engines. Compared to the fourth quarter of 2015, we expect operating levels throughout our HPMC operations to continue to increase as we progress through 2016, driven primarily by the commercial aerospace market. We expect HPMC segment operating profit as a percentage of sales to return to low double-digit levels in the second half of the year.

In our FRP segment, our second quarter 2016 results demonstrate that we are making progress in our journey toward a consistently profitable business, during a period of continuing low raw material prices, global stainless steel sheet and strip overcapacity, and uncertain end market demand. While FRP operational performance is improving compared to the last few fiscal quarters, more work remains as we continue our rightsizing and restructuring activities to streamline and simplify this business. While we expect a further reduction in operating losses in the third quarter 2016, compared to the second quarter, third quarter results for FRP are expected to be impacted by higher maintenance expenses, including planned equipment upgrades in our finishing operations. As we continue to reposition this business to a higher-value more differentiated product mix, we expect shipments of our specialty coil and plate products to increase in the second half of 2016 and benefit from the Hot-Rolling and Processing Facility (HRPF) capabilities, particularly for our 48"-wide nickel-based alloy sheet. As a result of these initiatives we continue to believe that the FRP segment will be modestly profitable in the fourth quarter 2016.

## Business Segment Results

High Performance Materials & Components (HPMC) Segment

Second quarter 2016 sales decreased 2.5% to \$498.4 million compared to the second quarter 2015, across most product forms, due to both lower shipment volumes and lower selling prices for most products, which include the effects of lower raw material surcharges. Compared to the second quarter 2015, sales of nickel-based and specialty alloys were down 10%, sales of titanium and titanium-related alloys and zirconium and related alloys were both down 1%, and sales of precision forgings, castings and components were up 4%. Demand from the aerospace and defense market continues to drive HPMC results, with jet engine

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and airframe products representing 42% and 20%, respectively, of total second quarter 2016 segment sales. Sales to the aerospace and defense market increased 6% compared to the prior year quarter, with sales to the commercial jet engine aerospace market up 17% and commercial airframe sales down 4%. Sales to the oil & gas/chemical & hydrocarbon processing industry decreased 61% compared to the second quarter 2015, reflecting continued weak demand in the oil & gas market for exploration and other down-hole applications. Sales to the medical market were down 4% and sales to the electrical energy market increased 8%, both compared to the prior year second quarter.

Comparative information for our HPMC segment revenues (in millions) by market and their respective percentages of the segment's overall revenues for the three month periods ended June 30, 2016 and 2015 is as follows:

| Market                                               | Three months ended<br>June 30, 2016 |     |   | Three months ended<br>June 30, 2015 |     |   |
|------------------------------------------------------|-------------------------------------|-----|---|-------------------------------------|-----|---|
| Aerospace & Defense:                                 |                                     |     |   |                                     |     |   |
| Jet Engines                                          | \$ 208.4                            | 42  | % | \$ 177.8                            | 35  | % |
| Airframes                                            | 97.7                                | 20  | % | 102.0                               | 20  | % |
| Government Aerospace & Defense                       | 60.4                                | 12  | % | 67.6                                | 13  | % |
| Total Aerospace & Defense                            | 366.5                               | 74  | % | 347.4                               | 68  | % |
| Medical                                              | 51.4                                | 10  | % | 53.4                                | 10  | % |
| Electrical Energy                                    | 36.0                                | 7   | % | 33.3                                | 7   | % |
| Oil & Gas/Chemical & Hydrocarbon Processing Industry | 12.0                                | 3   | % | 30.8                                | 6   | % |
| Construction/Mining                                  | 10.1                                | 2   | % | 11.6                                | 2   | % |
| Transportation                                       | 6.1                                 | 1   | % | 13.8                                | 3   | % |
| Other                                                | 16.3                                | 3   | % | 20.8                                | 4   | % |
| Total                                                | \$ 498.4                            | 100 | % | \$ 511.1                            | 100 | % |

International sales represented 46% of total segment sales for the second quarter 2016. Comparative information for the HPMC segment's major product categories, based on their percentages of sales for the three months ended June 30, 2016 and 2015, is as follows:

|                                             | Three<br>months<br>ended June<br>30,<br>2016 |   | 2015 |   |
|---------------------------------------------|----------------------------------------------|---|------|---|
| High-Value Products                         |                                              |   |      |   |
| Titanium and titanium alloys                | 30                                           | % | 29   | % |
| Nickel-based alloys and specialty alloys    | 29                                           | % | 31   | % |
| Precision forgings, castings and components | 28                                           | % | 27   | % |
| Zirconium and related alloys                | 13                                           | % | 13   | % |
| Total High-Value Products                   | 100%                                         |   | 100% |   |

Segment operating profit in the second quarter 2016 decreased to \$38.8 million, or 7.8% of total sales, compared to \$44.4 million, or 8.7% of total sales, for the second quarter 2015, primarily as a result of lower utilization based on weak demand from the oil & gas/chemical & hydrocarbon processing market, and from the construction and mining equipment market. Segment results for the second quarter were impacted by \$9 million of high production costs due to low operating rates at our Rowley, UT titanium sponge facility.

For the six months ended June 30, 2016, segment sales decreased 5.9% to \$991.4 million compared to the first six months of 2015, primarily as a result of lower sales to the oil & gas/chemical & hydrocarbon processing industry reflecting continued weak demand in the oil & gas market for exploration and other down-hole applications. Sales to the aerospace and defense market were 2% higher than the prior year to date period, led by commercial jet engine sales, which were 14% higher.



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Comparative information for our HPMC segment revenues (in millions) by market and their respective percentages of the segment's overall revenues for the six month periods ended June 30, 2016 and 2015 is as follows:

| Market                                               | Six months ended |       |  | Six months ended |       |  |
|------------------------------------------------------|------------------|-------|--|------------------|-------|--|
|                                                      | June 30, 2016    |       |  | June 30, 2015    |       |  |
| Aerospace & Defense:                                 |                  |       |  |                  |       |  |
| Jet Engines                                          | \$409.8          | 41 %  |  | \$360.3          | 34 %  |  |
| Airframes                                            | 190.5            | 19 %  |  | 215.7            | 20 %  |  |
| Government Aerospace & Defense                       | 124.2            | 13 %  |  | 136.1            | 13 %  |  |
| Total Aerospace & Defense                            | 724.5            | 73 %  |  | 712.1            | 67 %  |  |
| Medical                                              | 98.9             | 10 %  |  | 108.1            | 10 %  |  |
| Electrical Energy                                    | 70.6             | 7 %   |  | 69.0             | 6 %   |  |
| Oil & Gas/Chemical & Hydrocarbon Processing Industry | 26.5             | 3 %   |  | 70.7             | 7 %   |  |
| Construction/Mining                                  | 20.7             | 2 %   |  | 28.3             | 3 %   |  |
| Transportation                                       | 14.0             | 1 %   |  | 28.4             | 3 %   |  |
| Other                                                | 36.2             | 4 %   |  | 37.3             | 4 %   |  |
| Total                                                | \$991.4          | 100 % |  | \$1,053.9        | 100 % |  |

International sales represented 45% of total segment sales for the first six months of 2016. Comparative information for the HPMC segment's major product categories, based on their percentages of sales for the six months ended June 30, 2016 and 2015, is as follows:

|                                             | Six months ended June 30, |  |       |  |
|---------------------------------------------|---------------------------|--|-------|--|
|                                             | 2016                      |  | 2015  |  |
| High-Value Products                         |                           |  |       |  |
| Titanium and titanium alloys                | 30 %                      |  | 30 %  |  |
| Nickel-based alloys and specialty alloys    | 29 %                      |  | 32 %  |  |
| Precision forgings, castings and components | 28 %                      |  | 26 %  |  |
| Zirconium and related alloys                | 13 %                      |  | 12 %  |  |
| Total High-Value Products                   | 100 %                     |  | 100 % |  |

Segment operating profit in the first six months of 2016 decreased to \$67.9 million, or 6.8% of total sales, compared to \$117.3 million, or 11.1% of total sales, for the first six months of 2015, primarily as a result of lower utilization based on weak demand from the oil & gas/chemical & hydrocarbon processing market. Segment results in 2016 continued to be negatively impacted by \$18 million of high production costs due to low operating rates at our Rowley, UT titanium sponge facility, and first half 2016 results also include \$5.3 million of non-recurring work stoppage and return to work costs.

#### Flat Rolled Products (FRP) Segment

Second quarter 2016 sales decreased 39% compared to the second quarter 2015, to \$312.1 million, primarily due to lower shipments and lower prices across all flat-rolled product categories due primarily to the idling of production facilities for commodity stainless sheet and GOES. Shipments of standard stainless products decreased 30%, reflecting the continuing impacts of a surge of low-priced imports, primarily from China, and ongoing, aggressive inventory reductions by distribution customers. Shipments of high-value products decreased 33%, led by a 78% reduction in GOES volume. In July 2016, the U.S. Department of Commerce announced its preliminary determination that imports of stainless steel sheet and strip from China are benefiting from unfair government subsidies and such imports will begin to be subject to countervailing duties. Average selling prices decreased 15% for standard stainless products and 8% for high-value products. Significantly lower raw material surcharges versus year-ago levels contributed to the decline in sales and selling prices. Second quarter 2016 FRP segment titanium shipments, including Uniti joint venture conversion, were 1.0 million pounds, a 39% decrease compared to the second quarter 2015, reflecting weaker project-based demand from industrial titanium markets.

In the first quarter 2016, we completed the previously-announced idling of the standard/commodity stainless melt shop and finishing operations at our Flat Rolled Products' Midland, PA facility. The idling of our GOES operations, including the Bagdad, PA facility, was completed during the second quarter of 2016. The restart of these idled operations depends on future business conditions and ATI's ability to earn an acceptable return on invested capital on products manufactured at these facilities.

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Comparative information for our FRP segment revenues (in millions) by market and their respective percentages of the segment's overall revenues for the three month periods ended June 30, 2016 and 2015 is as follows:

| Market                                               | Three months ended |     |   | Three months ended |     |   |
|------------------------------------------------------|--------------------|-----|---|--------------------|-----|---|
|                                                      | June 30, 2016      |     |   | June 30, 2015      |     |   |
| Oil & Gas/Chemical & Hydrocarbon Processing Industry | \$ 60.4            | 19  | % | \$ 142.3           | 28  | % |
| Automotive                                           | 56.2               | 18  | % | 80.7               | 16  | % |
| Food Equipment & Appliances                          | 45.5               | 15  | % | 63.8               | 12  | % |
| Aerospace & Defense                                  | 40.8               | 13  | % | 39.5               | 8   | % |
| Construction/Mining                                  | 32.1               | 10  | % | 52.0               | 10  | % |
| Electrical Energy                                    | 28.7               | 9   | % | 68.7               | 13  | % |
| Electronics/Computers/Communication                  | 21.9               | 7   | % | 26.5               | 5   | % |
| Transportation                                       | 15.8               | 5   | % | 28.6               | 6   | % |
| Medical                                              | 3.3                | 1   | % | 3.6                | 1   | % |
| Other                                                | 7.4                | 3   | % | 5.7                | 1   | % |
| Total                                                | \$ 312.1           | 100 | % | \$ 511.4           | 100 | % |

International sales represented 33% of total segment sales for the second quarter 2016. Comparative information for the FRP products segment's major product categories, based on their percentages of sales for the three months ended June 30, 2016 and 2015, is as follows:

|                                           | Three months ended June 30, |   |      |   |
|-------------------------------------------|-----------------------------|---|------|---|
|                                           | 2016                        |   | 2015 |   |
| High-Value Products                       |                             |   |      |   |
| Precision and engineered strip            | 34                          | % | 26   | % |
| Nickel-based alloys and specialty alloys  | 26                          | % | 26   | % |
| Titanium and titanium alloys              | 3                           | % | 4    | % |
| Total High-Value Products, excluding GOES | 63                          | % | 56   | % |
| GOES                                      | 3                           | % | 9    | % |
| Total High-Value Products, including GOES | 66                          | % | 65   | % |
| Standard Products                         |                             |   |      |   |
| Stainless steel sheet                     | 19                          | % | 18   | % |
| Specialty stainless sheet                 | 10                          | % | 13   | % |
| Stainless steel plate                     | 5                           | % | 4    | % |
| Total Standard Products                   | 34                          | % | 35   | % |
| Grand Total                               | 100                         | % | 100  | % |

Segment operating loss was \$31.8 million, or (10.2)% of sales, for the second quarter 2016, compared to a segment operating loss of \$23.2 million, or (4.5)% of sales, for the second quarter 2015. Segment operating results in the second quarter 2016 were primarily driven by lower shipment volumes and selling prices, and reduced operating efficiencies during the work stoppage. FRP results include \$22.4 million in non-recurring operating costs related to higher-cost material produced prior to the work stoppage, and higher conversion costs during the return to more normal operating levels. FRP results were also negatively impacted by higher operating costs as we moved through the process of reducing production levels and then idling two facilities used in the production of commodity stainless sheet and GOES products.

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Comparative shipment volume and average selling price information of the segment's products for the three months ended June 30, 2016 and 2015 is provided in the following table:

|                           | Three months<br>ended June 30, |         | %<br>Change |
|---------------------------|--------------------------------|---------|-------------|
|                           | 2016                           | 2015    |             |
| Volume (000's pounds):    |                                |         |             |
| High-Value                | 86,814                         | 130,061 | (33 )%      |
| Standard                  | 103,558                        | 48,794  | (30 )%      |
| Total                     | 190,372                        | 78,855  | (32 )%      |
| Average prices (per lb.): |                                |         |             |
| High-Value                | \$2.36                         | \$ 2.56 | (8 )%       |
| Standard                  | \$1.01                         | \$ 1.19 | (15 )%      |
| Combined Average          | \$1.62                         | \$ 1.83 | (11 )%      |

For the first six months of 2016, sales decreased 47% compared to the first six months of 2015, to \$576.6 million, primarily due to lower shipments and lower selling prices across all flat-rolled product categories. The first six months of 2016 FRP segment titanium shipments, including Uniti joint venture conversion, were 1.9 million pounds, a 47% decrease compared to the first six months of 2015, reflecting weaker project-based demand from industrial titanium markets.

Comparative information for our FRP segment revenues (in millions) by market and their respective percentages of the segment's overall revenues for the six month periods ended June 30, 2016 and 2015 is as follows:

| Market                                               | Six<br>months ended<br>June 30, 2016 |     |   | Six<br>months ended<br>June 30, 2015 |     |   |
|------------------------------------------------------|--------------------------------------|-----|---|--------------------------------------|-----|---|
|                                                      |                                      |     | % |                                      |     | % |
| Automotive                                           | \$105.2                              | 18  | % | \$175.6                              | 16  | % |
| Oil & Gas/Chemical & Hydrocarbon Processing Industry | 104.9                                | 18  | % | 312.7                                | 29  | % |
| Aerospace & Defense                                  | 80.3                                 | 14  | % | 82.2                                 | 7   | % |
| Food Equipment & Appliances                          | 75.6                                 | 13  | % | 134.0                                | 12  | % |
| Electrical Energy                                    | 67.6                                 | 12  | % | 141.4                                | 13  | % |
| Construction/Mining                                  | 53.0                                 | 9   | % | 115.6                                | 11  | % |
| Electronics/Computers/Communication                  | 44.9                                 | 8   | % | 58.8                                 | 5   | % |
| Transportation                                       | 26.1                                 | 5   | % | 53.6                                 | 5   | % |
| Medical                                              | 5.5                                  | 1   | % | 6.9                                  | 1   | % |
| Other                                                | 13.5                                 | 2   | % | 13.3                                 | 1   | % |
| Total                                                | \$576.6                              | 100 | % | \$1,094.1                            | 100 | % |

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International sales represented 33% of total segment sales for the first six months of 2016. Comparative information for the FRP products segment's major product categories, based on their percentages of sales for the six months ended June 30, 2016 and 2015, is as follows:

|                                           | Six months<br>ended June<br>30,<br>2016 2015 |   |     |   |
|-------------------------------------------|----------------------------------------------|---|-----|---|
| High-Value Products                       |                                              |   |     |   |
| Precision and engineered strip            | 34                                           | % | 25  | % |
| Nickel-based alloys and specialty alloys  | 28                                           | % | 27  | % |
| Titanium and titanium alloys              | 4                                            | % | 3   | % |
| Total High-Value Products, excluding GOES | 66                                           | % | 55  | % |
| GOES                                      | 5                                            | % | 8   | % |
| Total High-Value Products, including GOES | 71                                           | % | 63  | % |
| Standard Products                         |                                              |   |     |   |
| Stainless steel sheet                     | 15                                           | % | 20  | % |
| Specialty stainless sheet                 | 10                                           | % | 13  | % |
| Stainless steel plate                     | 4                                            | % | 4   | % |
| Total Standard Products                   | 29                                           | % | 37  | % |
| Grand Total                               | 100                                          | % | 100 | % |

Segment operating loss was \$141.4 million, or (24.5)% of sales, for the first six months of 2016, compared to a segment operating loss of \$30.0 million, or (2.7)% of sales, for the first six months of 2015. Segment operating results in the first six months of 2016 were primarily driven by lower shipment volumes and selling prices, and reduced operating efficiencies during the recent work stoppage. 2016 FRP segment results include \$43 million of non-recurring operating costs related to higher-cost material produced prior to the work stoppage, higher conversion costs during the return to more normal operating levels, and costs associated with contractual obligations in the return to work agreement for represented employees.

Comparative shipment volume and average selling price information of the segment's products for the six months ended June 30, 2016 and 2015 is provided in the following table:

|                           | Six months<br>ended June 30,<br>2016 2015 |         |      | %<br>Change |
|---------------------------|-------------------------------------------|---------|------|-------------|
| Volume (000's pounds):    |                                           |         |      |             |
| High-Value                | 171,603                                   | 159,264 | (34) | %           |
| Standard                  | 170,593                                   | 119,948 | (47) | %           |
| Total                     | 342,196                                   | 279,212 | (41) | %           |
| Average prices (per lb.): |                                           |         |      |             |
| High-Value                | \$2.34                                    | \$2.65  | (12) | %           |
| Standard                  | \$1.00                                    | \$1.25  | (20) | %           |
| Combined Average          | \$1.67                                    | \$1.88  | (11) | %           |
| Corporate Items           |                                           |         |      |             |

For the second quarter and six months of 2016, LIFO inventory valuation reserve charges of \$4.3 million and \$4.6 million, respectively, were offset by \$4.7 million and \$5.0 million, respectively, in reductions in NRV inventory reserves, which are required to offset the Company's aggregate net debit LIFO inventory balance that exceeds current inventory replacement cost. For the second quarter and six months of 2015, LIFO inventory valuation reserve benefits of \$5.0 million and \$4.5 million, respectively, were offset by \$4.8 million and \$4.3 million, respectively, in higher NRV inventory reserves.

Corporate expenses for the second quarter 2016 were \$11.8 million, compared to \$10.1 million in the second quarter 2015. The increase in corporate expenses for the second quarter 2016 was primarily the result of higher incentive compensation expenses on equity-based awards, compared to the 2015 period, which included reversals of previously-recorded expense due to changes in estimates of attaining performance metrics. For the six months ended June 30, 2016, corporate expenses were \$22.8 million, compared to \$22.9 million for the six months ended June 30, 2015, with lower 2016 incentive compensation expenses offset by higher legal costs.

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Closed company and other expenses for the second quarter 2016 were \$5.7 million, compared to \$6.1 million for the second quarter 2015. For the six months ended June 30, 2016, closed company and other expenses were \$9.2 million, compared to \$12.1 million for the comparable 2015 period. The decrease in closed company and other expenses was primarily due to decreased legal costs and environmental expenses associated with closed operations, partially offset by higher retirement benefit expense.

Second quarter 2016 results include a \$1.0 million restructuring charge for severance obligations in the HPMC segment, as we continue to streamline our HPMC operations. Results for the first six months of 2016 include a \$10.0 million restructuring charge for severance obligations reflecting the \$1.0 million charge for HPMC in the second quarter and a \$9.0 million charge in the first quarter in the FRP business, with the reduction of approximately one-third of FRP's salaried workforce through the elimination of over 250 positions, which is expected to be completed by the end of 2016.

Interest expense, net of interest income, in the second quarter 2016 was \$30.3 million, compared to net interest expense of \$26.8 million in the second quarter 2015. On a year-to-date basis, the first six months of 2016 net interest expense was \$58.6 million compared to \$53.5 million for the first six months of 2015. The increase in interest expense was primarily due to a higher interest rate on our Senior Notes due 2023 (2023 Notes) resulting from credit rating downgrades, interest on the 4.75% Convertible Senior Notes due 2022 (the Convertible Notes) issued during the second quarter of 2016, and higher average borrowings on our Asset Based Lending (ABL) Revolving Credit Facility. Capitalized interest reduced interest expense by \$1.2 million in the second quarter of 2016 and \$0.5 million in the second quarter of 2015. For the six months ended June 30, 2016 and 2015, capitalized interest was \$2.0 million and \$1.0 million, respectively.

### Income Taxes

Second quarter 2016 results included a benefit for income taxes of \$25.9 million, or 62.6% of the loss before income taxes, compared to a benefit for income taxes of \$7.7 million, or 35.6% of the loss before income taxes, for the comparable 2015 period. The 2016 effective tax rate was impacted by revisions to projections of full year 2016 results, as well as the Company's inability to record a tax benefit on certain state tax attributes. Income taxes in the second quarter of 2016 included discrete tax benefits of \$2.8 million and income taxes in the second quarter of 2015 included discrete tax expense of \$0.7 million.

For the first six months of 2016, the benefit for income taxes was \$60.1 million, or 34.6% of the loss before income taxes, compared to a provision for income taxes of \$0.3 million, for the 2015 comparable period. The first six months of 2016 included discrete tax benefits of \$3.6 million and income taxes in the first six months of 2015 included discrete tax expense of \$0.9 million, primarily associated with adjustments to foreign taxes.

### Financial Condition and Liquidity

We have an ABL Revolving Credit Facility, which matures in September 2020 and is collateralized by the accounts receivable and inventory of our domestic operations. The revolving credit portion of the ABL facility is \$400 million, which includes a letter of credit sub-facility of up to \$200 million.

In May 2016, the ABL facility was amended to add an eighteen month term loan (Term Loan) in the amount of \$100.0 million, to support our restructuring actions and operational needs, and to amend certain of the ABL covenants and related defined terms. The interest rate on this Term Loan is 3.5% plus a LIBOR spread. Costs associated with amending the ABL facility were \$0.9 million, and are being amortized to interest expense over the term of the facility. Proceeds of the Term Loan were used to pay down outstanding borrowings under the revolving credit portion of the ABL facility. The Term Loan is due on November 13, 2017 and can be prepaid in its entirety on a one-time basis on or after May 13, 2017 if certain minimum liquidity conditions are satisfied. The underwriting fees and other third-party expenses for the issuance of the Term Loan were \$1.0 million and are being amortized to interest expense over the eighteen month term of the loan.

As amended, the applicable interest rate for borrowings under the ABL facility includes interest rate spreads based on available borrowing capacity that range between 2.0% and 2.5% for LIBOR-based borrowings and between 1.0% and 1.5% for base rate borrowings. As amended, the ABL facility contains a financial covenant whereby we must maintain a fixed charge coverage ratio of not less than 1.00:1.00 after an event of default has occurred and is continuing or if the undrawn availability under the ABL facility is less than the greater of (i) 12.5% of the then

applicable maximum borrowing amount or (ii) \$40.0 million. We did not meet this required fixed charge coverage ratio at June 30, 2016. As a result, we are not able to access this remaining 12.5% or \$62.5 million of the ABL facility until we meet the required ratio. There were no outstanding revolving credit borrowings under the ABL facility as of June 30, 2016, and \$10.8 million was utilized to support the issuance of letters of credit. Average revolving credit borrowings under the ABL facility for the first six months of 2016 were \$164 million, bearing an average annual interest rate of 1.757%.

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In the second quarter of 2016, we issued and sold \$287.5 million aggregate principal amount of 4.75% Convertible Senior Notes due 2022 (the Convertible Notes). We used a portion of the proceeds from the Convertible Notes to make a \$115 million contribution in July 2016 to our U.S. defined benefit pension plan, and expect to use additional Convertible Note proceeds to meet future pension funding requirements.

At June 30, 2016, we had \$322 million of cash and cash equivalents, and available additional liquidity under the ABL facility of approximately \$325 million. We believe that internally generated funds, current cash on hand and available borrowings under the ABL facility will be adequate to meet our liquidity needs, including currently projected required contributions to the ATI Pension Plan, our U.S. qualified defined benefit pension plan. We expect average funding requirements to the ATI Pension Plan to be over \$100 million annually for the next few years, however these estimates are subject to significant uncertainty, including potential changes to required mortality tables with revised longevity estimates, and the performance of our pension trust assets. If we needed to obtain additional financing using the credit markets, the cost and the terms and conditions any borrowings may be influenced by our credit rating.

We have an additional, separate credit facility for the issuance of letters of credit. As of June 30, 2016, \$32 million in letters of credit were outstanding under this facility.

We have no off-balance sheet arrangements as defined in Item 303(a)(4) of SEC Regulation S-K.

### Cash Flow and Working Capital

For the six months ended June 30, 2016, cash used in operations was \$33.6 million, and included a \$10.3 million benefit from a decline in managed working capital primarily due to inventory reductions in the FRP segment. Cash used in investing activities was \$143.5 million, primarily for capital expenditures, with over half related to completion of the HRPF. Cash provided by financing activities was \$349.6 million and consisted primarily of \$387.5 million for the Term Loan and Convertible Notes issued in the second quarter 2016 and \$2.5 million in borrowings under credit facilities, partially offset by dividend payments of \$17.2 million to ATI stockholders, \$10.4 million of issuance costs related to the new debt, and \$12.2 million primarily for the purchase of the 15% redeemable noncontrolling interest in ATI Flowform Products. At June 30, 2016, cash and cash equivalents on hand totaled \$322.3 million, an increase of \$172.5 million from year end 2015. Cash and cash equivalents held by our foreign subsidiaries was \$174.2 million at June 30, 2016, of which \$85.4 million was held by STAL, the Company's Chinese joint venture in which ATI has a 60% interest.

As part of managing the liquidity of our business, we focus on controlling managed working capital, which is defined as gross accounts receivable and gross inventories, less accounts payable. In measuring performance in controlling managed working capital, we exclude the effects of LIFO and other inventory valuation reserves, and reserves for uncollectible accounts receivable which, due to their nature, are managed separately. At June 30, 2016, managed working capital decreased to 41.8% of annualized total ATI sales compared to 46.2% of annualized sales at December 31, 2015. During the first six months of 2016, managed working capital decreased by \$10.3 million, primarily due to inventory reductions in the FRP segment. The decrease in managed working capital from December 31, 2015 resulted from a \$174.8 million decrease in inventory, partially offset by a \$72.6 million decrease in accounts payable and a \$91.9 million increase in accounts receivable. Days sales outstanding, which measures actual collection timing for accounts receivable, improved by approximately 20% as of June 30, 2016 compared to year end 2015. Gross inventory turns, which exclude the effect of LIFO and any applicable offsetting NRV inventory valuation reserves, improved slightly at June 30, 2016 compared to year end 2015.

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The components of managed working capital at June 30, 2016 and December 31, 2015 were as follows:

| (In millions)                                            | June 30,<br>2016 | December 31,<br>2015 |
|----------------------------------------------------------|------------------|----------------------|
| Accounts receivable                                      | \$492.5          | \$ 400.3             |
| Inventory                                                | 1,094.3          | 1,271.6              |
| Accounts payable                                         | (308.2 )         | (380.8 )             |
| Subtotal                                                 | 1,278.6          | 1,291.1              |
| Allowance for doubtful accounts                          | 4.3              | 4.5                  |
| Adjustment from current cost to LIFO cost basis          | (131.8 )         | (136.4 )             |
| Inventory valuation reserves                             | 204.1            | 206.3                |
| Managed working capital                                  | \$1,355.2        | \$ 1,365.5           |
| Annualized prior 3 months sales                          | \$3,242.1        | \$ 2,955.6           |
| Managed working capital as a % of annualized sales       | 41.8 %           | 46.2 %               |
| Change in managed working capital from December 31, 2015 | \$(10.3 )        |                      |

Capital Expenditures

We are at the end of a significant, multi-year capital expansion period that enhanced our manufacturing capabilities and capacity to meet expected intermediate and long-term demand from the aerospace (engine and airframe), oil & gas, chemical & hydrocarbon processing industry, electrical energy, automotive and medical markets, especially for titanium and titanium-based alloys, nickel-based alloys and superalloys, specialty alloys, and zirconium and related alloys.

Capital expenditures were \$145.3 million through June 30, 2016, over half of which related to the completion of the HRPF. In addition, our capital expansion projects in the HPMC segment for nickel alloy powder and titanium investment casting as well as an expansion project at our STAL joint venture in China are ongoing. The STAL capital expansion will be fully funded by STAL's operations. We continue to estimate that our full year 2016 capital expenditures will be less than \$240 million. We expect to fund our capital expenditures with cash on hand and cash flow generated from our operations and, if needed, by using a portion of the ABL facility.

Debt

Total debt outstanding increased \$390.4 million to \$1,895.6 million at June 30, 2016 compared to December 31, 2015. This increase was primarily due the Term Loan and Convertible Notes issued in the second quarter 2016.

In managing our overall capital structure, some of the measures on which we focus are net debt to total capitalization, which is the percentage of our debt, net of cash that may be available to reduce borrowings, to our total invested and borrowed capital, and total debt to total capitalization, which excludes cash balances. Net debt as a percentage of total capitalization was 44.1% at June 30, 2016, compared to 39.4% at December 31, 2015. The net debt to total capitalization was determined as follows:

| (In millions)                  | June 30,<br>2016 | December<br>31, 2015 |
|--------------------------------|------------------|----------------------|
| Total debt (a)                 | \$1,895.6        | \$1,505.2            |
| Less: Cash                     | (322.3 )         | (149.8 )             |
| Net debt                       | \$1,573.3        | \$1,355.4            |
| Total ATI stockholders' equity | 1,994.4          | 2,082.8              |
| Net ATI total capital          | \$3,567.7        | \$3,438.2            |
| Net debt to ATI total capital  | 44.1 %           | 39.4 %               |

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Total debt to total capitalization of 48.7% at June 30, 2016 increased from 42.0% at December 31, 2015.

Total debt to total capitalization was determined as follows:

| (In millions)                   | June 30,<br>2016 | December<br>31, 2015 |
|---------------------------------|------------------|----------------------|
| Total debt (a)                  | \$1,895.6        | \$1,505.2            |
| Total ATI stockholders' equity  | 1,994.4          | 2,082.8              |
| Total ATI capital               | \$3,890.0        | \$3,588.0            |
| Total debt to total ATI capital | 48.7 %           | 42.0 %               |

(a) Excludes debt issuance costs.

The stated interest rate payable on the 2023 Notes is subject to adjustment in the event of changes in the credit ratings on the 2023 Notes by either Moody's or Standard & Poor's (S&P). During the first quarter of 2016, S&P downgraded the Company's credit rating one notch to B+ from BB-. This downgrade resulted in an increase of the interest rate on the 2023 Notes from 7.625% as of December 31, 2015 to 7.875% effective with the interest period beginning February 15, 2016 and represents an additional \$1.3 million of interest expense measured on an annual basis. Any further credit rating downgrades will not affect the interest rate of the 2023 Notes.

In May 2016, we issued and sold \$250 million aggregate principal amount of 4.75% Convertible Senior Notes due 2022 (the Convertible Notes). We granted the underwriters a 30-day option to purchase up to an additional \$37.5 million aggregate principal amount of Convertible Notes on the same terms and conditions to cover over-allotments, if any. On June 1, 2016, we announced that the underwriters exercised this option in full and on June 2, 2016, we completed the offering and sale of the additional \$37.5 million aggregate principal amount of Convertible Notes.

Interest on the Convertible Notes is payable in cash semi-annually in arrears on each January 1 and July 1, commencing January 1, 2017. We used a portion of the proceeds from the Convertible Notes to make a \$115 million contribution in July 2016 to our U.S. defined benefit pension plan, and expect to use additional Convertible Note proceeds to meet future pension funding requirements. The underwriting fees, discount and other third-party expense for the issuance of the Convertible Notes were \$9.4 million and are being amortized to interest expense over the 6-year term of the Convertible Notes.

We do not have the right to redeem the Convertible Notes prior to their stated maturity date. Holders of the Convertible Notes have the option to convert their notes into shares of the Company's common stock, at any time prior to the close of business on the business day immediately preceding the stated maturity date (July 1, 2022). The initial conversion rate for the Convertible Notes is 69.2042 shares of ATI common stock per \$1,000 (in whole dollars) principal amount of Notes (19,896,194 shares), equivalent to conversion price of \$14.45 per share, subject to adjustment in certain events. Other than receiving cash in lieu of fractional shares, holders do not have the option to receive cash instead of shares of common stock upon conversion. Accrued and unpaid interest that exists upon conversion of a note will be deemed paid by the delivery of shares of ATI common stock and no cash payment or additional shares will be given to the holders.

If we undergo a fundamental change, holders of the Convertible Notes may require us to repurchase the notes in whole or in part for cash at a price equal to 100% of the principal amount of the notes to be purchased plus any accrued and unpaid interest to, but excluding, the repurchase date. Such a repurchase is to be made in cash.

#### Dividends

A regular quarterly dividend of \$0.08 per share of common stock was paid on June 9, 2016 to stockholders of record at the close of business on May 27, 2016. The payment of dividends and the amount of such dividends depends upon matters deemed relevant by our Board of Directors on a quarterly basis, such as our results of operations, financial condition, cash requirements, future prospects, any limitations imposed by law, credit agreements or senior securities, and other factors deemed relevant and appropriate. Under the ABL facility, there is no limit on dividend declarations or payments provided that the undrawn availability, after giving effect to a particular dividend payment, is at least the greater of \$120.0 million and 30% of the maximum revolving credit availability, and no event of default under the ABL facility has occurred and is continuing or would result from paying the dividend. In addition, there is no limit on dividend declarations or payments if the undrawn availability is less than the greater of \$120.0 million and 30% of the

maximum revolving credit advance amount but more than the greater of \$60.0 million and 15% of the maximum revolving credit advance amount, if (i) no event of default has occurred and is continuing or would result from paying the dividend, (ii) we demonstrate to the administrative agent that, prior to and after giving effect to the payment of the dividend (A) the undrawn availability, as measured both at the time of the dividend payment and as an average for the 60 consecutive day period immediately preceding the dividend payment, is at least the greater of \$60.0 million and 15% of the maximum revolving credit availability, and (B) we maintain a fixed charge coverage ratio of at least 1.00:1.00, as calculated in accordance with the terms of the ABL facility.

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### Labor Matters

On March 4, 2016, the USW ratified a four-year agreement covering USW-represented employees at many of our Flat Rolled Products segment facilities, and at two High Performance Materials & Components segment facilities located in Albany, OR and Lockport, NY, and these employees began returning to work in mid-March 2016.

### Critical Accounting Policies

#### Inventory

At June 30, 2016, we had net inventory of \$1,094.3 million. Inventories are stated at the lower of cost (last-in, first-out (LIFO), first-in, first-out (FIFO) and average cost methods) or market, less progress payments. Costs include direct material, direct labor and applicable manufacturing and engineering overhead, and other direct costs. Most of our inventory is valued utilizing the LIFO costing methodology. Inventory of our non-U.S. operations is valued using average cost or FIFO methods. Under the LIFO inventory valuation method, changes in the cost of raw materials and production activities are recognized in cost of sales in the current period even though these material and other costs may have been incurred at significantly different values due to the length of time of our production cycle. In a period of rising prices, cost of sales expense recognized under LIFO is generally higher than the cash costs incurred to acquire the inventory sold. Conversely, in a period of declining raw material prices, cost of sales recognized under LIFO is generally lower than cash costs incurred to acquire the inventory sold. Generally, over time based on overall inflationary trends in raw materials, labor and overhead costs, the use of the LIFO inventory valuation method will result in a LIFO inventory valuation reserve, as the higher current period costs are included in cost of sales and the balance sheet carrying value of inventory is reduced.

Since the LIFO inventory valuation methodology is designed for annual determination, interim estimates of the annual LIFO valuation are required. We recognize the effects of the LIFO inventory valuation method on an interim basis by projecting the expected annual LIFO cost and allocating that projection to the interim quarters equally. These projections of annual LIFO inventory valuation reserve changes are updated quarterly and are evaluated based upon material, labor and overhead costs and projections for such costs at the end of the year plus projections regarding year end inventory levels.

The prices for many of the raw materials we use have been extremely volatile during the past several years. Since we value most of our inventory utilizing the LIFO inventory costing methodology, a fall in material costs results in a benefit to operating results by reducing cost of sales and increasing the inventory carrying value, while conversely, a rise in raw material costs has a negative effect on our operating results by increasing cost of sales while lowering the carrying value of inventory. For example, for the six months ended June 30, 2016, the effect of rising raw material costs on our LIFO inventory valuation method result in cost of sales that were \$4.6 million higher than would have been recognized under the FIFO methodology to value our inventory while for the six months ended June 30, 2015, the effect of falling raw material costs on our LIFO inventory valuation method result in cost of sales that were \$4.5 million lower than would have been recognized under the FIFO methodology to value our inventory.

Due primarily to persistent raw material deflation over the last several years, we are in the unusual situation of having a LIFO inventory balance that exceeds replacement cost. In cases where inventory at FIFO cost is lower than the LIFO carrying value, a write-down of the inventory to market may be required, subject to a lower of cost or market evaluation. In applying the lower of cost or market principle, market means current replacement cost, subject to a ceiling (market value shall not exceed net realizable value) and a floor (market shall not be less than net realizable value reduced by an allowance for a normal profit margin). We evaluate product lines on a quarterly basis to identify inventory values that exceed estimated net realizable value.

The calculation of a resulting NRV inventory reserve, if any, is recognized as an expense in the period that the need for the reserve is identified.

The impact to our cost of sales for changes in the LIFO costing methodology and associated NRV inventory reserves were as follows (in millions):

Six months  
ended June  
30,

|                          | 2016    | 2015   |
|--------------------------|---------|--------|
| LIFO benefit (charge)    | \$(4.6) | \$4.5  |
| NRV benefit (charge)     | 5.0     | (4.3 ) |
| Net cost of sales impact | \$0.4   | \$0.2  |

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We also recorded inventory valuation charges for the market-based valuation of Rowley-produced titanium sponge inventory. These lower of cost or market charges were \$17.7 million and \$11.4 million for the six months ended June 30, 2016 and 2015, respectively.

It is our general policy to write-down to scrap value any inventory that is identified as obsolete and any inventory that has aged or has not moved in more than twelve months. In some instances this criterion is up to twenty-four months due to the longer manufacturing and distribution process for such products.

The LIFO inventory valuation methodology is not utilized by many of the companies with which we compete, including foreign competitors. As such, our results of operations may not be comparable to those of our competitors during periods of volatile material costs due, in part, to the differences between the LIFO inventory valuation method and other acceptable inventory valuation methods.

### Retirement Benefits

On March 4, 2016, the Company announced a four-year labor agreement with the USW covering USW-represented employees of its ATI Flat Rolled Products business unit and at two locations in the High Performance Materials & Components business segment. The new labor agreement included changes to several retirement benefit programs, including a freeze to new entrants to ATI's defined benefit pension plan, the elimination of defined benefit retiree healthcare for new employees, and changes in the levels of profit-based contributions for retiree medical benefits. The Company remeasured its other postretirement benefit obligation as of the March 1, 2016 contract effective date using a 4.05% discount rate, compared to a 4.50% discount rate as of December 31, 2015. Based on the remeasurement, other postretirement benefit liabilities decreased \$22.5 million, and other postretirement benefit expense will decrease by \$7.5 million in the March through December 2016 period.

In accordance with accounting standards, we determine the discount rate used to value pension plan liabilities as of the last day of each year. The discount rate reflects the current rate at which the pension liabilities could be effectively settled. In estimating this rate, we receive input from our actuaries regarding the rate of return on high quality, fixed income investments with maturities matched to the expected future retirement benefit payments. Based on current market conditions, discount rates are below the rates in effect at the year-end 2015 remeasurement date, when a 4.65% discount rate was used for valuing pension liabilities. The estimated effect at the year-end 2015 valuation date of a decrease in the discount rate by 0.50% would increase pension liabilities by approximately \$160 million. The effect on pension liabilities for changes to the discount rate, the difference between expected and actual plan asset returns, and the net effect of other changes in actuarial assumptions and experience are deferred and amortized over future periods in accordance with accounting standards.

For ERISA funding purposes, discount rates used to measure pension liabilities for U.S. qualified defined benefit plans are calculated on a different basis using a IRS-determined segmented yield curve, which currently results in a higher discount rate than the discount rate methodology required by accounting standards. Funding requirements are also affected by IRS-determined mortality assumptions, which may differ from those used under accounting standards. These IRS-determined mortality assumptions are generally expected to be revised in the future to project greater participant longevity, which would increase pension liabilities as calculated for funding purposes. We expect average funding requirements to the ATI Pension Plan to be over \$100 million annually for the next few years, however these estimates are subject to significant uncertainty, including potential changes to required mortality tables with revised longevity estimates, changes in discount rates, and the performance of our pension trust assets. Pension trust asset performance is dependent on the market value of plan assets as of the end of the year. In July 2016, we made a \$115 million contribution to the ATI Pension Plan to improve the plan's funded position.

### Asset Impairment

We monitor the recoverability of the carrying value of our long-lived assets. An impairment charge is recognized when the expected net undiscounted future cash flows from an asset's use (including any proceeds from disposition) are less than the asset's carrying value, and the asset's carrying value exceeds its fair value. Changes in the expected use of a long-lived asset group, and the financial performance of the long-lived assets group and its operating segment, are evaluated as indicators of possible impairment. Future cash flow value may include appraisals for property, plant and

equipment, land and improvements, future cash flow estimates from operating the long-lived assets, and other operating considerations.

Market conditions and additional changes in the operating rate of our Rowley, UT premium titanium sponge production facility, with an approximate carrying value of \$490 million, or changes in operating rates of certain higher cost titanium operations located in Albany, OR, with an approximate carrying value of \$25 million, may require an evaluation of impairment, and it is possible that an impairment charge for one or more of these long-lived asset groups may be required.

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Goodwill is reviewed annually in the fourth quarter of each year for impairment or more frequently if impairment indicators arise. Other events and changes in circumstances may also require goodwill to be tested for impairment between annual measurement dates. While a decline in stock price and market capitalization is not specifically cited as a goodwill impairment indicator, a company's stock price and market capitalization should be considered in determining whether it is more likely than not that the fair value of a reporting unit is less than its carrying value. Additionally, a significant decline in a company's stock price may suggest that an adverse change in the business climate may have caused the fair value of one or more reporting units to fall below carrying value. A sustained decline in market capitalization below book value may be determined to require an interim goodwill impairment review.

At June 30, 2016, ATI had \$646.9 million of goodwill on its consolidated balance sheet, a decrease of \$4.5 million from December 31, 2015 due to foreign currency translation on goodwill for reporting units with functional currency other than the U.S. dollar. All goodwill relates to reporting units in the HPMC segment. Management concluded that none of ATI's reporting units experienced any triggering event that would have required a step one interim goodwill impairment analysis at June 30, 2016.

### Other Critical Accounting Policies

A summary of other significant accounting policies is discussed in Management's Discussion and Analysis of Financial Condition and Results of Operations and in Note 1 to the consolidated financial statements contained in our Annual Report on Form 10-K for the year ended December 31, 2015.

The preparation of the financial statements in accordance with U.S. generally accepted accounting principles requires us to make judgments, estimates and assumptions regarding uncertainties that affect the reported amounts of assets and liabilities. Significant areas of uncertainty that require judgments, estimates and assumptions include the accounting for derivatives, retirement plans, income taxes, environmental and other contingencies as well as asset impairment, inventory valuation and collectability of accounts receivable. We use historical and other information that we consider to be relevant to make these judgments and estimates. However, actual results may differ from those estimates and assumptions that are used to prepare our financial statements.

### Pending Accounting Pronouncements

In March 2016, the Financial Accounting Standards Board (FASB) issued new guidance to simplify employee share-based payment accounting. The areas for simplification in this guidance involve several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. This new guidance is effective for the Company's 2017 fiscal year with early adoption permitted. The Company is currently evaluating the possible impact of this new guidance, but does not anticipate that it will have a material impact on its consolidated financial statements.

In February 2016, the FASB issued new guidance on the accounting for leases. This new guidance will require that a lessee recognize assets and liabilities on the balance sheet for all leases with a lease term of more than twelve months, with the result being the recognition of a right of use asset and a lease liability. The new lease accounting requirements are effective for the Company's 2019 fiscal year with a modified retrospective transition approach required, with early adoption permitted. The Company is currently evaluating the impact of the new guidance on its consolidated financial statements.

In July 2015, the FASB issued changes to simplify the measurement of inventory valuation at the lower of cost or net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less reasonably predictable costs of completion, disposal and transportation. The new inventory measurement requirements are effective for the Company's 2017 fiscal year, and will replace the current inventory valuation guidance that requires the use of a lower of cost or market framework. This change in the measurement of inventory does not apply to inventory valued on a LIFO basis, which is the accounting basis used for most of the Company's inventory. The adoption of these changes is not expected to have a material impact on the Company's consolidated financial statements.

In May 2014, the FASB issued changes to revenue recognition with customers. This update provides a five-step analysis of transactions to determine when and how revenue is recognized. An entity should 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 July 2015, the FASB approved a one-year deferral of the effective date of this new guidance resulting in it now being effective for the Company beginning in fiscal year 2018. The Company plans to adopt this accounting standard update using the modified retrospective method, with the cumulative effect of initially applying this update

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recognized in the first reporting period of 2018. The Company is currently evaluating the impact of the new guidance on its consolidated financial statements.

### Forward-Looking and Other Statements

From time to time, we have made and may continue to make “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. Certain statements in this report relate to future events and expectations and, as such, constitute forward-looking statements. Forward-looking statements include those containing such words as “anticipates,” “believes,” “estimates,” “expects,” “would,” “should,” “will,” “will likely result,” “forecast,” “outlook,” “projects,” and similar expressions. Forward-looking statements are based on management’s current expectations and include known and unknown risks, uncertainties and other factors, many of which we are unable to predict or control, that may cause our actual results, performance or achievements to differ materially from those expressed or implied in the forward-looking statements. Important factors that could cause actual results to differ materially from those in the forward-looking statements include: (a) material adverse changes in economic or industry conditions generally, including global supply and demand conditions and prices for our specialty materials; (b) material adverse changes in the markets we serve, including the aerospace and defense, oil and gas/chemical process industry, electrical energy, medical, automotive, construction and mining, and other markets; (c) our inability to achieve the level of cost savings, productivity improvements, synergies, growth or other benefits anticipated by management, from strategic investments and the integration of acquired businesses, whether due to significant increases in energy, raw materials or employee benefits costs, the possibility of project cost overruns or unanticipated costs and expenses, or other factors; (d) continued decline in, or volatility of, prices and availability of supply, of the raw materials that are critical to the manufacture of our products; (e) declines in the value of our defined benefit pension plan assets or unfavorable changes in laws or regulations that govern pension plan funding; (f) significant legal proceedings or investigations adverse to us; (g) labor disputes or work stoppage; and (h) other risk factors summarized in our Annual Report on Form 10-K for the year ended December 31, 2015, and in other reports filed with the Securities and Exchange Commission. We assume no duty to update our forward-looking statements.

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

As part of our risk management strategy, we utilize derivative financial instruments, from time to time, to hedge our exposure to changes in energy and raw material prices, foreign currencies, and interest rates. We monitor the third-party financial institutions which are our counterparty to these financial instruments on a daily basis and diversify our transactions among counterparties to minimize exposure to any one of these entities. Fair values for derivatives were measured using exchange-traded prices for the hedged items including consideration of counterparty risk and the Company’s credit risk. Our exposure to volatility in interest rates is presently not material, as nearly all of our debt is at fixed interest rates.

**Volatility of Energy Prices.** Energy resources markets are subject to conditions that create uncertainty in the prices and availability of energy resources. The prices for and availability of electricity, natural gas, oil and other energy resources are subject to volatile market conditions. These market conditions often are affected by political and economic factors beyond our control. Increases in energy costs, or changes in costs relative to energy costs paid by competitors, have and may continue to adversely affect our profitability. To the extent that these uncertainties cause suppliers and customers to be more cost sensitive, increased energy prices may have an adverse effect on our results of operations and financial condition. We use approximately 9 to 12 million MMBtu’s of natural gas annually, depending upon business conditions, in the manufacture of our products. These purchases of natural gas expose us to risk of higher natural gas prices. For example, a hypothetical \$1.00 per MMBtu increase in the price of natural gas would result in increased annual energy costs of approximately \$9 to \$12 million. We use several approaches to minimize any material adverse effect on our results of operations or financial condition from volatile energy prices. These approaches include incorporating an energy surcharge on many of our products and using financial derivatives to reduce exposure to energy price volatility.

At June 30, 2016, the outstanding financial derivatives used to hedge our exposure to energy cost volatility included natural gas hedges. In the first six months of 2016, due to changes in expected operating levels primarily within the Flat Rolled Products segment operations, the Company concluded that portions of these natural gas hedges for 2016 and the first quarter of 2017 were ineffective based on forecast changes in underlying natural gas usage. The Company

recognized a \$0.2 million and \$1.3 million pre-tax loss for the three and six months ended June 30, 2016, respectively, for natural gas cash flow hedge ineffectiveness, which is reported in selling and administrative expenses on the consolidated statement of operations. Approximately 80% of our forecasted domestic requirements for natural gas for 2017 and approximately 25% for 2018 are hedged. The net mark-to-market valuation of these outstanding natural gas hedges at June 30, 2016 was an unrealized pre-tax loss of \$10.5 million, comprised of \$8.9 million in accrued liabilities and \$1.6 million in other long-term liabilities. For the three months ended June 30, 2016, the effects of natural gas hedging activity increased cost of sales by \$4.7 million.

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**Volatility of Raw Material Prices.** We use raw materials surcharge and index mechanisms to offset the impact of increased raw material costs; however, competitive factors in the marketplace can limit our ability to institute such mechanisms, and there can be a delay between the increase in the price of raw materials and the realization of the benefit of such mechanisms. For example, in 2015, we used approximately 95 million pounds of nickel; therefore, a hypothetical change of \$1.00 per pound in nickel prices would result in increased costs of approximately \$95 million. In addition, in 2015, we also used approximately 800 million pounds of ferrous scrap in the production of our flat-rolled products; a hypothetical change of \$0.01 per pound would result in increased costs of approximately \$8 million. While we enter into raw materials futures contracts from time-to-time to hedge exposure to price fluctuations, such as for nickel, we cannot be certain that our hedge position adequately reduces exposure. We believe that we have adequate controls to monitor these contracts, but we may not be able to accurately assess exposure to price volatility in the markets for critical raw materials.

The majority of our products are sold utilizing raw material surcharges and index mechanisms. However, as of June 30, 2016, we had entered into financial hedging arrangements, primarily at the request of our customers, related to firm orders for an aggregate notional amount of approximately 31 million pounds of nickel with hedge dates through 2020. The aggregate notional amount hedged is approximately 30% of a single year's estimated nickel raw material purchase requirements. Any gain or loss associated with these hedging arrangements is included in cost of sales. At June 30, 2016, the net mark-to-market valuation of our outstanding raw material hedges was an unrealized pre-tax loss of \$18.5 million, comprised of \$1.6 million in prepaid expense and other current assets, \$4.0 million in other long-term assets, \$12.4 million in accrued liabilities and \$11.7 million in other long-term liabilities on the balance sheet.

**Foreign Currency Risk.** Foreign currency exchange contracts are used, from time-to-time, to limit transactional exposure to changes in currency exchange rates. We sometimes purchase foreign currency forward contracts that permit us to sell specified amounts of foreign currencies expected to be received from our export sales for pre-established U.S. dollar amounts at specified dates. The forward contracts are denominated in the same foreign currencies in which export sales are denominated. These contracts are designated as hedges of the variability in cash flows of a portion of the forecasted future export sales transactions which otherwise would expose the Company to foreign currency risk, primarily euros. In addition, we may also designate cash balances held in foreign currencies as hedges of forecasted foreign currency transactions.

In 2015, we net settled substantially all of our foreign currency forward contracts designated as cash flow hedges with 2016 and 2017 maturity dates. The portion of the deferred gains on these settled cash flow hedges determined to be effective is currently recognized in accumulated other comprehensive income and is reclassified to earnings when the underlying transactions occur. As of June 30, 2016, we held 91.2 million euro notional value of foreign currency forward contracts designated as fair value hedges with maturity dates through 2017. We recorded a \$3.1 million benefit and a \$2.5 million charge in the three and six months ended June 30, 2016, respectively, and a \$1.9 million and \$7.4 million benefit in the three and six months ended June 30, 2015, respectively, in costs of sales on the consolidated statement of operations for maturities and mark-to-market changes on these fair value hedges.

We may also enter into foreign currency forward contracts that are not designated as hedges, which are denominated in the same foreign currency in which export sales are denominated. We have 14 million euro notional value outstanding as of June 30, 2016 of foreign currency forward contracts not designated as hedges, with maturity dates into the second quarter of 2017.

At June 30, 2016, the net mark-to-market valuation of the outstanding foreign currency forward contracts was an unrealized pre-tax loss of \$0.9 million, of which \$0.6 million is included in prepaid expense and other current assets, \$0.2 million is in other long-term assets, \$1.2 million in accrued liabilities and \$0.5 million in other long-term liabilities on the balance sheet.

### Item 4. Controls and Procedures

#### (a) Evaluation of Disclosure Controls and Procedures

Our Chief Executive Officer and Chief Financial Officer have evaluated the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) or Rule 15d-15(e) under the Securities Exchange Act of 1934, as amended)

as of June 30, 2016, and they concluded that these disclosure controls and procedures are effective.

(b) Changes in Internal Controls

There was no change in our internal controls over financial reporting identified in connection with the evaluation of the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) or Rule 15d-15(e) under the Securities Exchange Act of 1934, as amended) as of June 30, 2016 conducted by our Chief Executive Officer and Chief Financial Officer, that occurred during the quarter ended June 30, 2016 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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### PART II. OTHER INFORMATION

#### Item 1. Legal Proceedings

A number of lawsuits, claims and proceedings have been or may be asserted against the Company relating to the conduct of its currently or formerly owned businesses, including those pertaining to product liability, patent infringement, commercial, government contracting, construction, employment, employee and retiree benefits, taxes, environmental, health and safety and occupational disease, and stockholder and corporate governance matters. Certain of such lawsuits, claims and proceedings are described in our Annual Report on Form 10-K for the year ended December 31, 2015, and addressed in Note 14 to the unaudited interim financial statements included herein. While the outcome of litigation cannot be predicted with certainty, and some of these lawsuits, claims or proceedings may be determined adversely to the Company, management does not believe that the disposition of any such pending matters is likely to have a material adverse effect on the Company's financial condition or liquidity, although the resolution in any reporting period of one or more of these matters could have a material adverse effect on the Company's results of operations for that period.

On February 11, 2016, the National Labor Relations Board (NLRB) served a complaint on ATI alleging that the Company violated the National Labor Relations Act in connection with its collective bargaining negotiations with the United Steel, Paper and Forestry, Rubber, Manufacturing, Energy, Allied Industrial and Service Workers International Union (USW) and by locking out its USW-represented employees effective August 15, 2015. On March 4, 2016, the USW ratified a four-year labor agreement covering USW-represented employees of its ATI Flat Rolled Products business unit and at two locations in the High Performance Materials & Components business segment. All charges and the complaint pending with the NLRB have been withdrawn.

#### Item 1A. Risk Factors

The following is an update to, and should be read in conjunction with Item 1A. Risk Factors contained in the Company's Annual Report on Form 10-K for the year ended December 31, 2015. In addition to the other information set forth in this report, you should carefully consider the factors discussed in Part I, "Item 1A. Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2015, which could materially affect our business, financial condition or future results. The risks described in our Annual Report on Form 10-K are not the only risks facing our Company. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results.

Our substantial indebtedness could adversely affect our business, financial condition or results of operations and prevent us from fulfilling our obligations under our outstanding indebtedness.

As of June 30, 2016, our total consolidated indebtedness was approximately \$1.9 billion. This substantial level of indebtedness increases the risk that we may be unable to generate enough cash to pay amounts due in respect of our indebtedness. Our substantial indebtedness could have important consequences to our stockholders and significant effects on our business. For example, it could:

- make it more difficult for us to satisfy our obligations with respect to our outstanding indebtedness;
- increase our vulnerability to general adverse economic and industry conditions;
- require us to dedicate a substantial portion of our cash flow from operations to payments on our indebtedness, thereby reducing the availability of our cash flow to fund working capital, capital expenditures, our strategic growth initiatives and development efforts and other general corporate purposes;
- limit our flexibility in planning for, or reacting to, changes in our business and the industry in which we operate;
- restrict us from exploiting business opportunities;
- place us at a competitive disadvantage compared to our competitors that have less indebtedness; and
- limit our ability to borrow additional funds for working capital, capital expenditures, acquisitions, debt service requirements, execution of our business strategy or other general corporate purposes.

In addition, the agreements that govern our current indebtedness contain, and the agreements that may govern any future indebtedness that we may incur may contain, financial and other restrictive covenants that could limit our ability to engage in activities that may be in our long-term best interests. Our failure to comply with those covenants could result in an event of default that, if not cured or waived, could result in the acceleration of all of our debt.



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The United Kingdom's vote to leave the European Union will have uncertain effects and could adversely affect us. The announcement of the results of the Referendum of the United Kingdom's Membership of the European Union (the "Referendum"), which were in favor of the exit of the United Kingdom from the European Union ("Brexit"), could cause disruptions to and create uncertainty surrounding our business, including materially adversely affecting our relationships with our existing and future customers, suppliers and employees. The Referendum is non-binding, but negotiations are expected to commence shortly to determine the future terms of the United Kingdom's relationship with the European Union, including the terms of trade between the United Kingdom and the European Union. We currently transact business in the United Kingdom and in other key European markets. In 2015, approximately 22% of our total revenues were generated in European countries, with approximately 5% of our total revenues having been generated in the United Kingdom. The effects of Brexit on us will depend, in large part, on any agreements that the United Kingdom makes to retain access to European Union markets either during a transitional period or more permanently following Brexit. The measures potentially could disrupt certain markets we serve and certain tax jurisdictions in which we operate and adversely change tax benefits or liabilities in these or other jurisdictions. In addition, Brexit could lead to legal uncertainties and potentially divergent national laws and regulations as the United Kingdom determines which European Union laws and regulations to replace or replicate. In addition, the announcement of the results of the Referendum has caused significant volatility in global stock markets and currency exchange rate fluctuations that resulted in the strengthening of the U.S. dollar against certain foreign currencies in which we conduct business. The strengthening of the U.S. dollar relative to other currencies may adversely affect our results of operations, in a number of ways. For example, our international sales are denominated in both the U.S. dollar and other currencies. A fluctuation of currency exchanges rates may expose us to gains and losses on non-U.S. currency transactions. A potential devaluation of the local currencies of our customers relative to the U.S. dollar also may impair the purchasing power of those customers and could cause those customers to decrease or cancel orders or potentially default on payment. Further, we translate sales and other results denominated in foreign currency into U.S. dollars for our financial statements. During periods of a strengthening dollar, our reported international sales and earnings could be reduced because foreign currencies may translate into fewer U.S. dollars. If Brexit is formally pursued by the United Kingdom and implemented, there may be additional global economic uncertainty, which may cause our customers to closely monitor their costs and reduce their spending budget on our products and services. Any of these effects of the Referendum and the potential Brexit, among others, could materially adversely affect our results of operations, business and financial condition.

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Item 6. Exhibits

(a) Exhibits

- |         |                                                                                                                                                                                                                                                                                                                                                                                        |
|---------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 4.1     | Fifth Supplemental Indenture, dated as of May 24, 2016, between Allegheny Technologies Incorporated and The Bank of New York Mellon, as trustee (incorporated by reference to Exhibit 4.2 to the Registrant's Current Report on Form 8-K dated May 24, 2016 (File No. 1-12001)).                                                                                                       |
| 10.1    | First Amendment to Revolving Credit and Security Agreement, dated as of May 13, 2016, by and among the borrowers party thereto, the guarantors party thereto, the lenders party thereto and PNC Bank, National Association, as agent for the lenders (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K dated May 16, 2016 (File No. 1-12001)). |
| 10.2    | Acknowledgement Letter Agreement, dated as of July 7, 2016, between TDY Industries, LLC, as borrowing agent, and PNC Bank, National Association, as agent for the lenders (filed herewith).                                                                                                                                                                                            |
| 12.1    | Computation of the Ratio of Earnings to Fixed Charges (filed herewith).                                                                                                                                                                                                                                                                                                                |
| 31.1    | Certification of Chief Executive Officer required by Securities and Exchange Commission Rule 13a – 14(a) or 15d – 14(a) (filed herewith).                                                                                                                                                                                                                                              |
| 31.2    | Certification of Chief Financial Officer required by Securities and Exchange Commission Rule 13a – 14(a) or 15d – 14(a) (filed herewith).                                                                                                                                                                                                                                              |
| 32.1    | Certification pursuant to 18 U.S.C. Section 1350 (filed herewith).                                                                                                                                                                                                                                                                                                                     |
| 101.INS | XBRL Instance Document                                                                                                                                                                                                                                                                                                                                                                 |
| 101.SCH | XBRL Taxonomy Extension Schema Document                                                                                                                                                                                                                                                                                                                                                |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document                                                                                                                                                                                                                                                                                                                                  |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase Document                                                                                                                                                                                                                                                                                                                                   |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase Document                                                                                                                                                                                                                                                                                                                                        |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase Document                                                                                                                                                                                                                                                                                                                                 |

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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.

ALLEGHENY TECHNOLOGIES INCORPORATED

(Registrant)

Date: August 3, 2016 By /s/ Patrick J. DeCourcy

Patrick J. DeCourcy

Senior Vice President, Finance and Chief Financial Officer

(Principal Financial Officer)

Date: August 3, 2016 By /s/ Karl D. Schwartz

Karl D. Schwartz

Vice President, Controller and Chief Accounting Officer

(Principal Accounting Officer)

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