

=====
FORM 10-K
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
=====

Annual Report Pursuant to Section 13 or 15(d) of the Securities
Exchange Act of 1934
For the fiscal year ended December 31, 1995
Commission file number 1-9447

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

Delaware 94-3030279
(State of Incorporation) (I.R.S. Employer Identification No.)

5847 SAN FELIPE, SUITE 2600, HOUSTON, TEXAS 77057-3010
(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: (713) 267-3777

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

Table with 2 columns: Title of each class, Name of each exchange on which registered. Rows include Common Stock and 8.255% PRIDES Convertible Preferred Stock.

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

No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

As of March 15, 1996, there were 71,641,854 shares of the common stock of the registrant outstanding. Based upon New York Stock Exchange closing prices on March 15, 1996, the aggregate market value of the registrant's common stock and 8.255% PRIDES held by non-affiliates was \$421.1 million.

Certain portions of the registrant's annual report to shareholders for the fiscal year ended December 31, 1995, are incorporated by reference into Parts I, II, and IV of this Report on Form 10-K. Certain portions of the registrant's definitive proxy statement to be filed not later than 120 days after the close of the registrant's fiscal year are incorporated by reference into Part III of this Report on Form 10-K.

=====

NOTE

Kaiser Aluminum Corporation's Report on Form 10-K filed with the Securities and Exchange Commission includes all exhibits required to be filed with the Report. Copies of this Report on Form 10-K, including only Exhibit 21 of the exhibits listed on pages 25-28 of this Report, are available without charge upon written request. The registrant will furnish copies of the other exhibits to this Report on Form 10-K upon payment of a fee of 25 cents per page. Please contact the office set forth below to request copies of this Report on Form 10-K and for information as to the number of pages contained in each of the other exhibits and to request copies of such exhibits:

Corporate Secretary
Kaiser Aluminum Corporation
5847 San Felipe, Suite 2600
Houston, Texas 77057-3010

(i)

KAISER ALUMINUM CORPORATION AND SUBSIDIARY COMPANIES

TABLE OF CONTENTS

| | Page |
|--------------------------------------------------------------------------------------------------------------|------|
| | ---- |
| PART I | 1 |
| ITEM 1. BUSINESS. | 1 |
| ITEM 2. PROPERTIES. | 12 |
| ITEM 3. LEGAL PROCEEDINGS | 12 |
| ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS | 16 |
| PART II | 16 |
| ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS. | 16 |
| ITEM 6. SELECTED FINANCIAL DATA | 17 |
| ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS. | 17 |
| ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA | 17 |
| ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON | |

| | |
|----------------------------------------------------------------------------------------|----|
| ACCOUNTING AND FINANCIAL DISCLOSURE. | 17 |
| PART III | 17 |
| ITEM 10.. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT | 17 |
| ITEM 11. EXECUTIVE COMPENSATION. | 17 |
| ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT. | 17 |
| ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS. . | 17 |
| PART IV | 17 |
| ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K | 17 |
| SCHEDULE I | 19 |
| SIGNATURES | 24 |
| INDEX OF EXHIBITS. | 25 |
| EXHIBIT 21 SUBSIDIARIES. | 29 |

(ii)

KAISER ALUMINUM CORPORATION AND SUBSIDIARY COMPANIES

PART I

ITEM 1. BUSINESS

Industry Overview

Primary aluminum is produced by the refining of bauxite into alumina and the reduction of alumina into primary aluminum. Approximately two pounds of bauxite are required to produce one pound of alumina, and approximately two pounds of alumina are required to produce one pound of primary aluminum. Aluminum's valuable physical properties include its light weight, corrosion resistance, thermal and electrical conductivity, and high tensile strength.

Demand

The packaging, transportation and construction industries are the principal consumers of aluminum in the United States, Japan, and Western Europe. In the packaging industry, which accounted for approximately 20% of aluminum consumption in 1994, aluminum's recyclability and weight advantages have enabled it to gain market share from steel and glass, primarily in the beverage container area. Nearly all beer cans and soft drink cans manufactured for the United States market are made of aluminum. Kaiser Aluminum Corporation ("Kaiser" or the "Company") believes that growth in the packaging area is likely to continue through the 1990s due to general population increase and to further penetration of the beverage container market in Asia and Latin America, where aluminum cans are a substantially lower percentage of the total beverage container market than in the United States. Kaiser believes that growth in demand for can sheet in the United States will follow the growth in population, offset, in part, by the effects of the use of lighter gauge aluminum for can sheet and of plastic container production from newly installed capacity.

In the transportation industry, which accounted for approximately 28% of aluminum consumption in the United States, Japan, and Western Europe in 1994, automotive manufacturers use aluminum instead of steel, ductile iron, or copper for an increasing number of components, including radiators, wheels, suspension components, and engines, in order to meet more stringent environmental, safety, and fuel efficiency requirements. Kaiser believes that sales of aluminum to the transportation industry have considerable growth potential due to projected increases in the use of aluminum in

automobiles. In addition, Kaiser believes that consumption of aluminum in the construction industry will follow the cyclical growth pattern of that industry, and will benefit from higher growth in Asian and Latin American economies.

Supply

As of year-end 1995, Western world aluminum capacity from 107 smelting facilities was approximately 16.6 million tons* per year. Western world production of primary aluminum for 1995 increased approximately 1.8% compared to 1994. Net exports of aluminum from the former Sino Soviet bloc increased approximately 250% from 1990 levels during the period from 1991 through 1994 to approximately 2.2 million tons per year. These exports contributed to a significant increase in London Metal Exchange ("LME") stocks of primary aluminum which peaked in June 1994 at 2.7 million tons. By the end of 1995, LME stocks of primary aluminum had declined 2.1 million tons from this peak level and 1.1 million tons from the beginning of 1995. See "-Recent Industry Trends."

Based upon information currently available, the Company believes that moderate additions will be made during 1996-1998 to Western world alumina and primary aluminum production capacity. The increases in alumina capacity during 1996-1998 are expected to come from one new refinery which began operations in 1995 and incremental expansions of existing

- - - - -
* All references to tons in this Report refer to metric tons of 2,204.6 pounds.

1

KAISER ALUMINUM CORPORATION AND SUBSIDIARY COMPANIES
- - - - -

ITEM 1. BUSINESS (continued)

refineries. In addition, Kaiser believes that there is currently approximately .9 million tons of curtailed smelting capacity that could be restarted by aluminum producers. The increases in primary aluminum capacity during 1996-1998 are expected to come from one new smelter, which began operations in 1995 and is expected to reach its rated capacity of approximately 466,000 tons per year in 1996, and the remainder principally from incremental expansions of existing smelters.

Recent Industry Trends

Market fundamentals for aluminum improved significantly in 1994 as aluminum producers worldwide curtailed primary aluminum production, Western world consumption of aluminum grew strongly, and customers replenished inventories, particularly in the United States. In 1995, production of primary aluminum increased and consumption of aluminum continued to grow, but at a much lower rate than in 1994. In general, the overall aluminum market was strongest in the first half of 1995. By the second half of 1995, orders and shipments for certain products had softened and the rate of decline in LME inventories had leveled off. By the end of 1995, some small increases in LME inventories occurred, and prices of aluminum weakened from first-half levels. The Midwest U.S. transaction price for primary aluminum in 1995 averaged approximately 86 cents per pound, compared to a 1994 annual average of approximately 72 cents per pound. The Midwest U.S. transaction price for primary aluminum averaged approximately 79 cents per pound in December 1995.

Western world demand for alumina, and the price of alumina, declined in 1994 in response to the curtailment of Western world smelter production of primary aluminum, partially offset by increased usage of Western world alumina by smelters in the Commonwealth of Independent States (the "CIS") and in the People's Republic of China (the "PRC"). Increased Western world production of primary aluminum, as well as continued imports of Western world alumina by the CIS and the PRC, during 1995 resulted in higher demand for Western world alumina and significantly stronger alumina pricing. United States shipments of domestic fabricated aluminum products in 1995 were approximately at 1994 levels, although in 1995 demand for can sheet in the United States softened relative to 1994. Overall, Kaiser believes that

the market fundamentals for aluminum will be good for the near future, barring prolonged economic recession, and that demand is likely to continue growing at levels sufficient to absorb the output from restarts of industry smelter capacity and from the limited additions of new supply under construction.

The Company

General

The Company is a direct subsidiary of MAXXAM Inc. ("MAXXAM"). The Company, through its subsidiary, Kaiser Aluminum & Chemical Corporation ("KACC"), operates in all principal aspects of the aluminum industry - the mining of bauxite, the refining of bauxite into alumina, the production of primary aluminum from alumina, and the manufacture of fabricated (including semi-fabricated) aluminum products. In addition to the production utilized by KACC in its operations, KACC sells significant amounts of alumina and primary aluminum in domestic and international markets. In 1995, KACC produced approximately 2,838,000 tons of alumina, of which approximately 72% was sold to third parties, and produced 413,600 tons of primary aluminum, of which approximately 66% was sold to third parties. KACC is also a major domestic supplier of fabricated aluminum products. In 1995, KACC shipped approximately 368,200 tons of fabricated aluminum products to third parties, which accounted for approximately 6% of the total tonnage of United States domestic shipments. A majority of KACC's fabricated products are sold to distributors or used by customers as components in the manufacture and assembly of finished end-use products. Note 10 of the Notes to Consolidated Financial Statements contained in the Company's 1995 Annual Report to Shareholders (the "Annual Report") is incorporated herein by reference.

KAISER ALUMINUM CORPORATION AND SUBSIDIARY COMPANIES

ITEM 1. BUSINESS (continued)

The following table sets forth total shipments and intracompany transfers of KACC's alumina, primary aluminum, and fabricated aluminum operations:

| | Year Ended December 31, | | |
|--------------------------------------|-------------------------|---------|---------|
| | ----- | | |
| | 1995 | 1994 | 1993 |
| | ----- | ----- | ----- |
| | (in thousands of tons) | | |
| ALUMINA: | | | |
| Shipments to Third Parties | 2,040.1 | 2,086.7 | 1,997.5 |
| Intracompany Transfers | 800.6 | 820.9 | 807.5 |
| PRIMARY ALUMINUM: | | | |
| Shipments to Third Parties | 271.7 | 224.0 | 242.5 |
| Intracompany Transfers | 217.4 | 225.1 | 233.6 |
| FABRICATED ALUMINUM PRODUCTS: | | | |
| Shipments to Third Parties | 368.2 | 399.0 | 373.2 |

Sensitivity to Prices and Hedging Programs

Kaiser's operating results are sensitive to changes in the prices of alumina, primary aluminum, and fabricated aluminum products, and also depend to a significant degree upon the volume and mix of all products sold and on KACC's hedging strategies. Fabricated aluminum prices, which vary considerably among products, are influenced by changes in the price of primary aluminum and generally lag behind primary aluminum prices for

periods of up to six months. Changes in the market price of primary aluminum also affect Kaiser's production costs of fabricated products because they influence the price of aluminum scrap purchased by Kaiser and Kaiser's labor costs, to the extent such costs are indexed to primary aluminum prices. Through its variable cost structures, forward sales, and hedging programs, KACC has attempted to mitigate its exposure to possible declines in the market prices of alumina, primary aluminum, and fabricated aluminum products while retaining the ability to participate in favorable pricing environments that may materialize. See "Management's Discussion and Analysis of Financial Condition and Results of Operations - Trends - Sensitivity to Prices and Hedging Programs" and Note 9 of the Notes to Consolidated Financial Statements in the Annual Report.

Production Operations

The Company's operations are conducted through KACC's decentralized business units which compete throughout the aluminum industry.

- o The alumina business unit, which mines bauxite and obtains additional bauxite tonnage under long-term contracts, produced approximately 8% of Western world alumina in 1995. During 1995, KACC third party shipments of bauxite represented approximately 21% of bauxite mined. In addition, KACC third party shipments of alumina represented approximately 72% of alumina produced. KACC's share of total Western world alumina capacity was approximately 7% in 1995.
- o The primary aluminum products business unit operates two domestic smelters wholly owned by KACC and two foreign smelters in which KACC holds significant ownership interests. During 1995, KACC third party shipments of primary aluminum represented approximately 66% of primary aluminum production. KACC's share of total Western world primary aluminum capacity was approximately 3% in 1995.

KAISER ALUMINUM CORPORATION AND SUBSIDIARY COMPANIES

ITEM 1. BUSINESS (continued)

- o Fabricated aluminum products are manufactured by three business units - flat-rolled products, extruded products and engineered components. The products include body, lid, and tab stock for beverage containers, sheet and plate products, heat-treated products, screw machine stock, redraw rod, forging stock, truck wheels and hubs, air bag canisters, engine manifolds, and other castings, forgings and extruded products, which are manufactured at plants located in principal marketing areas of the United States and Canada. The aluminum utilized in KACC's fabricated products operations is comprised of primary aluminum, obtained both internally and from third parties, and scrap metal purchased from third parties.

Alumina

The following table lists KACC's bauxite mining and alumina refining facilities as of December 31, 1995:

| Activity | Facility | Location | Company Ownership | Annual | Total |
|----------|----------|----------|-------------------|----------------------------------------------|----------------------------|
| | | | | Production Capacity Available to the Company | Annual Production Capacity |
| | | | | | |

| | | | | (tons) | (tons) |
|------------------|-----------|-----------|-------|-----------|-----------|
| Bauxite Mining | KJBC(1) | Jamaica | 49% | 4,500,000 | 4,500,000 |
| | Alpart(2) | Jamaica | 65% | 2,275,000 | 3,500,000 |
| | | | | 6,775,000 | 8,000,000 |
| | | | ===== | ===== | |
| Alumina Refining | Gramercy | Louisiana | 100% | 1,000,000 | 1,000,000 |
| | Alpart | Jamaica | 65% | 943,000 | 1,450,000 |
| | QAL | Australia | 28.3% | 934,000 | 3,300,000 |
| | | | | 2,877,000 | 5,750,000 |
| | | | ===== | ===== | |

- (1) Although KACC owns 49% of Kaiser Jamaica Bauxite Company ("KJBC"), it has the right to receive all of such entity's output.
- (2) Alumina Partners of Jamaica ("Alpart") bauxite is refined into alumina at the Alpart refinery.

Bauxite mined in Jamaica by KJBC is refined into alumina at KACC's plant at Gramercy, Louisiana, or is sold to third parties. In 1979, the Government of Jamaica granted KACC a mining lease for the mining of bauxite sufficient to supply KACC's then-existing Louisiana alumina refineries at their annual capacities of 1,656,000 tons per year until January 31, 2020. Alumina from the Gramercy plant is sold to third parties.

Alpart holds bauxite reserves and owns a 1,450,000 tons per year alumina plant located in Jamaica. KACC owns a 65% interest in Alpart, and Hydro Aluminium a.s ("Hydro") owns the remaining 35% interest. KACC has management responsibility for the facility on a fee basis. KACC and Hydro have agreed to be responsible for their proportionate shares of Alpart's costs and expenses. The Government of Jamaica has granted Alpart a mining lease and has entered into other agreements with Alpart designed to assure that sufficient reserves of bauxite will be available to Alpart to operate its refinery as it may be expanded to a capacity of 2,000,000 tons per year through the year 2024. Alpart has entered into an agreement for the supply of substantially all of its fuel oil through 1996. The balance of Alpart's fuel oil requirements through 1996 will be purchased in the spot market.

4

KAISER ALUMINUM CORPORATION AND SUBSIDIARY COMPANIES

ITEM 1. BUSINESS (continued)

KACC owns a 28.3% interest in Queensland Alumina Limited ("QAL"), which owns the largest and one of the most efficient alumina refineries in the world, located in Queensland, Australia. QAL refines bauxite into alumina, essentially on a cost basis, for the account of its stockholders under long-term tolling contracts. The stockholders, including KACC, purchase bauxite from another QAL stockholder under long-term supply contracts. KACC has contracted with QAL to take approximately 792,000 tons per year of capacity or pay standby charges. KACC is unconditionally obligated to pay amounts calculated to service its share (\$88.9 million at December 31, 1995) of certain debt of QAL, as well as other QAL costs and expenses, including bauxite shipping costs. QAL's annual production capacity is approximately 3,300,000 tons, of which approximately 934,000 tons are available to KACC.

KACC's principal customers for bauxite and alumina consist of large and small domestic and international aluminum producers that purchase bauxite and reduction-grade alumina for use in their internal refining and smelting operations, trading intermediaries who resell raw materials to end-users, and users of chemical-grade alumina. In 1995, KACC sold all of its bauxite to two customers, the largest of which accounted for approximately 74% of

such sales. KACC also sold alumina to nine customers, the largest and top five of which accounted for approximately 23% and 90% of such sales, respectively. See "- Competition." The Company believes that among alumina producers KACC is now the world's second largest seller of alumina to third parties. KACC's strategy is to sell a substantial portion of the bauxite and alumina available to it in excess of its internal refining and smelting requirements under multi-year sales contracts.

Primary Aluminum Products

The following table lists KACC's primary aluminum smelting facilities as of December 31, 1995:

| Location | Facility | Company Ownership | Annual Rated Capacity Available to the Company | Total Annual Rated Capacity | 1995 Average Operating Rate |
|-----------------------|----------|-------------------|------------------------------------------------|-----------------------------|-----------------------------|
| | | | (tons) | (tons) | |
| Domestic | | | | | |
| Washington | Mead | 100% | 200,000 | 200,000 | 82% |
| Washington | Tacoma | 100% | 73,000 | 73,000 | 82% |
| Subtotal | | | 273,000 | 273,000 | |
| International | | | | | |
| Ghana | Valco | 90% | 180,000 | 200,000 | 68% |
| Wales, United Kingdom | Anglesey | 49% | 55,000 | 112,000 | 119% |
| Subtotal | | | 235,000 | 312,000 | |
| Total | | | 508,000 | 585,000 | |

KACC owns two smelters located at Mead and Tacoma, Washington, where alumina is processed into primary aluminum. The Mead facility uses pre-bake technology and produces primary aluminum. Approximately 71% of Mead's 1995 production was used at KACC's Trentwood fabricating facility and the balance was sold to third parties. The Tacoma plant uses Soderberg technology and produces primary aluminum and high-grade, continuous-cast, redraw rod, which currently commands a premium price in excess of the price of primary aluminum. Both smelters have achieved significant production efficiencies in recent years through retrofit technology, cost controls, and semi-variable wage and power contracts, leading to increases in production volume and enhancing their ability to compete with newer smelters. At the Mead plant, KACC

KAISER ALUMINUM CORPORATION AND SUBSIDIARY COMPANIES

ITEM 1. BUSINESS (continued)

has converted to welded anode assemblies to increase energy efficiency, extended the anode life-cycle in the smelting process, changed from pencil to liquid pitch to produce carbon anodes which achieved environmental and operating savings, and engaged in efforts to increase production through the use of improved, higher-efficiency reduction cells.

Electric power represents an important production cost for KACC at its aluminum smelters. In 1995 electric power purchase agreements for KACC's facilities in the Pacific Northwest were successfully restructured, which the Company anticipates will result in significantly lower electric power costs in 1996 and beyond for the Mead and Tacoma, Washington, smelters and

the Trentwood, Washington, rolling mill compared to 1995 electric power costs. From 1981 until 1995, electric power for KACC's Mead and Tacoma smelters was purchased exclusively from the Bonneville Power Administration (the "BPA") by KACC under a contract which expires in 2001. In April 1995 the BPA agreed to allow each of its direct service industrial customers (the "DSIs"), which include KACC, to purchase a portion of its requirement for electric power from sources other than the BPA beginning October 1, 1995. In June 1995 KACC entered into an agreement with The Washington Water Power Company (the "WWP") to purchase up to 50 megawatts of electric power for its Northwest facilities for a five-year term beginning October 1, 1995. KACC is receiving power under that contract, which power displaces a portion of KACC's interruptible power from the BPA. In addition, in 1995 KACC entered into a new power purchase contract with the BPA, which amends the existing BPA power contract and which contemplates reductions during 1996 in the amount of power which KACC is obligated to purchase from the BPA and which the BPA is obligated to sell to KACC, and the replacement of such power with power to be purchased from other suppliers. KACC is negotiating power purchase agreements for such power with suppliers other than the BPA. Contracts for the purchase of all power required by KACC's Mead and Tacoma smelters and Trentwood rolling mill for 1996, and for approximately one-half of such power for the period 1997-2000, have been finalized. Two lawsuits were filed in December 1995 against the BPA by various parties, one of which petitions for a review of the BPA's "Record of Decision on Direct Service Industrial Customer Requirements Power Sales Contract" issued on September 28, 1995, and one of which petitions for review of, and to set aside, suspend, or modify, the action of the BPA to decide to offer five-year "block" power sales to the DSIs. The effect of such lawsuits, if any, on KACC's new power purchase contract with the BPA is not known. Certain of the DSIs, including KACC, have intervened in the two lawsuits.

In 1995 KACC also entered into agreements with the BPA and with the WWP, with terms ending in 2001, under which the BPA and the WWP would provide to KACC transmission services for power purchased from sources other than the BPA. The term of the transmission services agreement with the BPA was subsequently extended for an additional fifteen years, which extension has been challenged. Four lawsuits have been filed against the BPA by various parties, which lawsuits either challenge the BPA's record of decision offering such an extension agreement to the DSIs or challenge the BPA's Business Plan Environmental Impact Statement record of decision in connection therewith. Certain of the DSIs, including KACC, have intervened in the four lawsuits.

KACC began operating its Mead and Tacoma smelters in Washington at approximately 75% of their full capacity in January 1993, when three reduction potlines were removed from production (two at Mead and one at Tacoma) in response to a power reduction imposed by the BPA. In March 1995, the BPA offered to its industrial customers, including KACC, surplus firm power at a discounted rate for the period April 1, 1995, through July 31, 1995, to enable such customers to restart idle industrial loads. In April 1995, KACC and the BPA entered into a contract for an amount of such power, and thereafter KACC restarted one-half of an idle potline (approximately 9,000 tons of annual capacity) at its Tacoma, Washington, smelter. The Tacoma smelter was returned to full production in October 1995. In 1995 KACC entered into a one-year power supply contract with the BPA, for a term ending September 30, 1996, in connection with the restart of idled capacity at its Mead smelter. The Mead smelter returned to full production in December 1995.

KACC manages, and owns a 90% interest in, the Volta Aluminium Company Limited ("Valco") aluminum smelter in Ghana. The Valco smelter uses pre-bake technology and processes alumina supplied by KACC and the other participant into primary aluminum under long-term tolling contracts which provide for proportionate payments by the participants

KAISER ALUMINUM CORPORATION AND SUBSIDIARY COMPANIES

ITEM 1. BUSINESS (continued)

in amounts intended to pay not less than all of Valco's operating and

financing costs. KACC's share of the primary aluminum is sold to third parties. Power for the Valco smelter is supplied under an agreement which expires in 2017. The agreement indexes two-thirds of the price of the contract quantity of power to the market price of primary aluminum. The agreement also provides for a review and adjustment of the base power rate and the price index every five years. The most recent review was completed in April 1994 for the 1994-1998 period. Valco has entered into an agreement with the government of Ghana under which Valco has been assured (except in cases of force majeure) that it will receive sufficient electric power to operate at its current level of three and one-half potlines through December 31, 1996. Kaiser believes that, assuming normal rainfall during 1996, Valco should have available sufficient electric power to operate at its current level through 1996.

KACC owns a 49% interest in the Anglesey Aluminium Limited ("Anglesey") aluminum smelter and port facility at Holyhead, Wales. The Anglesey smelter uses pre-bake technology. KACC supplies 49% of Anglesey's alumina requirements and purchases 49% of Anglesey's aluminum output. KACC sells its share of Anglesey's output to third parties. Power for the Anglesey aluminum smelter is supplied under an agreement which expires in 2001.

KACC has developed and installed proprietary retrofit and control technology in all of its smelters, as well as at third party locations. This technology - which includes the redesign of the cathodes and anodes that conduct electricity through reduction cells, improved feed systems that add alumina to the cells, and a computerized system that controls energy flow in the cells - enhances KACC's ability to compete more effectively with the industry's newer smelters. KACC is actively engaged in efforts to license this technology and sell technical and managerial assistance to other producers worldwide, and may participate in joint ventures or similar business partnerships which employ KACC's technical and managerial knowledge. See "-Research and Development."

KACC's principal primary aluminum customers consist of large trading intermediaries and metal brokers, who resell primary aluminum to fabricated product manufacturers, and large and small international aluminum fabricators. In 1995, KACC sold its primary aluminum production not utilized for internal purposes to approximately 35 customers, the largest and top five of which accounted for approximately 25% and 62% of such sales, respectively. See "- Competition." Marketing and sales efforts are conducted by a small staff located at the business unit's headquarters in Pleasanton, California, and by senior executives of KACC who participate in the structuring of major sales transactions. A majority of the business unit's sales are based upon long-term relationships with metal merchants and end-users.

Fabricated Aluminum Products

KACC manufactures and markets fabricated aluminum products for the packaging, transportation, construction, and consumer durables markets in the United States and abroad. Sales in these markets are made directly and through distributors to a large number of customers. In 1995, four domestic beverage container manufacturers were among the leading customers for KACC's fabricated products and accounted for approximately 12% of KACC's sales revenue.

KACC's fabricated products compete with those of numerous domestic and foreign producers and with products made of steel, copper, glass, plastic, and other materials. Product quality, price, and availability are the principal competitive factors in the market for fabricated aluminum products. KACC has focused its fabricated products operations on selected products in which KACC has production expertise, high-quality capability, and geographic and other competitive advantages.

Flat-Rolled Products - The flat-rolled products business unit, the largest of KACC's fabricated products businesses, operates the Trentwood sheet and plate mill at Spokane, Washington. The Trentwood facility is KACC's largest fabricating plant and accounted for approximately 64% of KACC's 1995 fabricated aluminum products shipments. The business unit supplies the beverage container market (producing body, lid, and tab stock), the aerospace market, and the tooling plate, heat-treated alloy and common alloy coil markets, both directly and through distributors. During 1995, KACC successfully

KAISER ALUMINUM CORPORATION AND SUBSIDIARY COMPANIES

ITEM 1. BUSINESS (continued)

completed the two year restructuring of its flat-rolled products operation at its Trentwood plant to reduce that facility's annual operating costs by at least \$50.0 million.

KACC's flat-rolled products are sold primarily to beverage container manufacturers located in the western United States and in the Asian Pacific Rim countries where the Trentwood plant's location provides KACC with a transportation advantage. Quality of products for the beverage container industry and timeliness of delivery are the primary bases on which KACC competes. Kaiser believes that capital improvements at Trentwood have enhanced the quality of KACC's products for the beverage container industry and the capacity and efficiency of KACC's manufacturing operations, and that KACC is one of the highest quality producers of aluminum beverage can stock in the world.

In 1995, the flat-rolled products business unit had 31 domestic and foreign can stock customers, including the five major domestic beverage can manufacturers. The largest and top five of such customers accounted for approximately 14% and 41%, respectively, of the business unit's revenue. See "- Competition." In 1995, the business unit shipped products to approximately 150 customers in the aerospace, transportation, and industrial ("ATI") markets, most of which were distributors who sell to a variety of industrial end-users. The top five customers in the ATI markets for flat-rolled products accounted for approximately 13% of the business unit's revenue. The marketing staff for the flat-rolled products business unit is located at the Trentwood facility and in Pleasanton, California. Sales are made directly to customers (including distributors) from eight sales offices located throughout the United States. International customers are served by sales offices in the Netherlands and Japan and by independent sales agents in Asia and Latin America.

Extruded Products - The extruded products business unit is headquartered in Dallas, Texas, and operates soft-alloy extrusion facilities in Los Angeles, California; Santa Fe Springs, California; Sherman, Texas; and London, Ontario, Canada; a cathodic protection business located in Tulsa, Oklahoma, that also extrudes both aluminum and magnesium; rod and bar facilities in Newark, Ohio, and Jackson, Tennessee, which produce screw machine stock, redraw rod, forging stock, and billet; and a facility in Richland, Washington, which produces seamless tubing in both hard and soft alloys for the automotive, other transportation, export, recreation, agriculture, and other industrial markets. Each of the soft-alloy extrusion facilities has fabricating capabilities and provides finishing services.

The extruded products business unit's major markets are in the transportation industry, to which it provides extruded shapes for automobiles, trucks, trailers, cabs, and shipping containers, and in the distribution, durable goods, defense, building and construction, ordnance and electrical markets. In 1995, the extruded products business unit had approximately 825 customers for its products, the largest and top five of which accounted for approximately 6% and 20%, respectively, of its revenue. See "- Competition." Sales are made directly from plants as well as marketing locations across the United States.

Engineered Components - The engineered components business unit operates forging facilities at Erie, Pennsylvania; Oxnard, California; and Greenwood, South Carolina; a machine shop at Greenwood, South Carolina; and a casting facility in Canton, Ohio. The engineered components business unit is one of the largest producers of aluminum forgings in the United States and is a major supplier of high-quality forged parts to customers in the automotive, commercial vehicle and ordnance markets. The high strength-to-weight properties of forged and cast aluminum make it particularly well-suited for automotive applications. The business unit's casting facility manufactures aluminum engine manifolds for the automobile, truck and marine markets.

In 1995, the engineered components business unit had approximately 250

customers, the largest and top five of which accounted for approximately 34% and 77%, respectively, of the business unit's revenue. See "- Competition." The engineered components business unit's headquarters is located in Erie, Pennsylvania, and there is a sales and engineering office located in Detroit, Michigan, which works with car makers and other customers, the Center for Technology (see "-Research and Development"), and plant personnel to create new automotive component designs and improve existing products.

KAISER ALUMINUM CORPORATION AND SUBSIDIARY COMPANIES

ITEM 1. BUSINESS (continued)

Competition

Aluminum competes in many markets with steel, copper, glass, plastic, and numerous other materials. In recent years, plastic containers have increased and glass containers have decreased their respective shares of the soft drink sector of the beverage container market. In the United States, beverage container materials, including aluminum, face increased competition from plastics as increased polyethylene ("PET") container capacity is brought on line by plastics manufacturers. Within the aluminum business, KACC competes with both domestic and foreign producers of bauxite, alumina and primary aluminum, and with domestic and foreign fabricators. Many of KACC's competitors have greater financial resources than KACC. KACC's principal competitors in the sale of alumina include Alcoa Alumina and Chemicals LLC, Billiton Marketing and Trading BV, and Alcan Aluminium Limited. KACC competes with most aluminum producers in the sale of primary aluminum.

Primary aluminum and, to some degree, alumina are commodities with generally standard qualities, and competition in the sale of these commodities is based primarily upon price, quality and availability. KACC also competes with a wide range of domestic and international fabricators in the sale of fabricated aluminum products. Competition in the sale of fabricated products is based upon quality, availability, price and service, including delivery performance. KACC concentrates its fabricating operations on selected products in which KACC has production expertise, high-quality capability, and geographic and other competitive advantages. Kaiser believes that, assuming the current relationship between worldwide supply and demand for alumina and primary aluminum does not change materially, the loss of any one of KACC's customers, including intermediaries, would not have a material adverse effect on the Company's financial condition or results of operations.

Research and Development

KACC conducts research and development activities principally at three facilities - the Center for Technology ("CFT") in Pleasanton, California; the Primary Aluminum Products Division Technology Center ("DTC") adjacent to the Mead smelter in Washington; and the Alumina Development Laboratory ("ADL") at the Gramercy, Louisiana, refinery, which supports Kaiser Alumina Technical Services ("KATS") and the facilities of the alumina business unit. Net expenditures for Company-sponsored research and development activities were \$18.5 million in 1995, \$16.7 million in 1994, and \$18.5 million in 1993. KACC's research staff totaled 157 at December 31, 1995. KACC estimates that research and development net expenditures will be approximately \$22.5 million in 1996.

CFT performs research and development across a range of aluminum process and product technologies to support KACC's business units and new business opportunities. It also selectively offers technical services to third parties. Significant efforts are directed at product and process technology for the can stock, aircraft and automotive markets, and aluminum reduction cell models which are applied to improving cell designs and operating conditions. The largest and most notable single project being developed at CFT is a strip-casting micromill process for producing can sheet. The conversion and capital costs of these micromills are expected to be significantly lower than conventional rolling mills and to result in improved economics compared with historical manufacturing and

transportation costs for can stock. A pilot facility has been constructed and operated at CFT. The first micromill is being constructed in Nevada as a demonstration production facility, and KACC expects operational startup of the facility at the end of 1996. KACC currently intends to finance the cost of the construction of the Nevada micromill, estimated to be approximately \$45.0 million, from general corporate funds, including possible borrowings under the 1994 Credit Agreement (defined below), although KACC is in discussions with third parties which might provide some or all of such funding. DTC maintains specialized laboratories and a miniature carbon plant where experiments with new anode and cathode technology are performed. DTC supports KACC's primary aluminum smelters, and concentrates on the development of cost-effective technical innovations such as equipment and process improvements. KATS provides improved alumina process technology to KACC's facilities and technical support to new business ventures in cooperation with KACC's international business development group.

KAISER ALUMINUM CORPORATION AND SUBSIDIARY COMPANIES

ITEM 1. BUSINESS (continued)

KACC is actively engaged in efforts to license its technology and sell technical and managerial assistance to other producers worldwide. KACC's technology has been installed in alumina refineries, aluminum smelters and rolling mills located in the United States, Jamaica, Sweden, Germany, Russia, India, Australia, Korea, New Zealand, Ghana, United Arab Emirates, and the United Kingdom. KACC's revenue from technology sales and technical assistance to third parties were \$5.7 million in 1995, \$10.0 million in 1994, and \$12.8 million in 1993.

KACC has entered into agreements with respect to the Krasnoyarsk smelter in Russia under which KACC has licensed certain of its technology for use in such facility and agreed to provide purchasing services in obtaining Western-sourced technology and equipment to be used in such facility. These agreements were entered into in November 1990, and the services under them are expected to be completed in 1996. In addition, in 1993 KACC entered into agreements with respect to the Nadvoitsy smelter in Russia and the Korba smelter of the Bharat Aluminum Co. Ltd., in India, under which KACC has licensed certain of its technology for use in such facilities. Services under the Nadvoitsy agreement were completed in 1995, and KACC expects that services under the Korba agreement will be completed in 1996.

Operations in China

In 1994, KACC commenced efforts to increase its activities in certain countries that are expected to be important suppliers of aluminum and large customers for aluminum and alumina. KACC intends to use its technical skills, together with capital investments, to form joint ventures or acquire equity in facilities in such countries.

In 1995, Kaiser Yellow River Investment Limited ("KYRIL"), a subsidiary of the Company, was formed to participate in the privatization, modernization, expansion, and operation of aluminum smelting facilities in the PRC. KYRIL has entered into a Joint Venture Agreement and related agreements (the "Joint Venture Agreements") with the Lanzhou Aluminum Smelters ("LAS") of the China National Nonferrous Metals Industry Corporation relating to the formation and operation of Yellow River Aluminum Industry Company Limited, a Sino-foreign joint equity enterprise organized under PRC law (the "Joint Venture").

The Joint Venture constitutes the first large-scale privatization in the Chinese aluminum smelting industry. The Joint Venture's assets and operations are located primarily in the industrial city of Lanzhou, the capital of Gansu Province in northwestern China, and in nearby Lianhai, a special economic zone also in Gansu Province. The smelter at Lanzhou is the fifth largest aluminum smelter in the PRC and produces approximately 55,000 tons of primary aluminum per year. The smelter at Lianhai produces approximately 30,000 tons of primary aluminum per year. LAS's capital contribution to the Joint Venture consisted primarily of the Lanzhou and Lianhai smelters.

The Joint Venture Agreements include provisions for KYRIL to contribute up to \$59.7 million to the Joint Venture in exchange for up to a 49% interest in the Joint Venture (the "Capital Contribution") and contemplate that such capital may be used to expand the annual production capacity of LAS from 85,000 to 115,000 tons, construct a dry Soderberg paste plant, install and upgrade pollution control equipment, and provide for general corporate purposes, including working capital. KYRIL contributed \$9.0 million as a contribution to the capital of the Joint Venture in July 1995. The parties to the Joint Venture are currently engaged in discussions concerning the amount, timing and other conditions relating to KYRIL's additional contributions to the Joint Venture. Governmental approval in the PRC will be necessary in order to implement any arrangements agreed to by the parties, and there can be no assurance such approvals will be obtained.

KACC, through its extruded products business unit, has entered into contracts to form two small joint venture companies in the PRC. KACC will indirectly acquire equity interests of approximately 45% and 49%, respectively, in these two companies which will manufacture aluminum extrusions, in exchange for the contribution to those companies of certain used equipment, technology, services and cash. The majority equity interests in the two companies will be owned by affiliates of Guizhou Guang Da Construction Company.

10

KAISER ALUMINUM CORPORATION AND SUBSIDIARY COMPANIES

ITEM 1. BUSINESS (continued)

Employees

During 1995, KACC employed an average of 9,546 persons, compared with an average of 9,744 employees in 1994, and 10,220 employees in 1993. At December 31, 1995, KACC's work force was 9,624, including a domestic work force of 5,946, of whom 4,010 were paid at an hourly rate. Most hourly paid domestic employees are covered by collective bargaining agreements with various labor unions. Approximately 74% of such employees are covered by a master agreement (the "Labor Contract") with the United Steelworkers of America ("USWA") expiring September 30, 1998. The Labor Contract covers KACC's plants in Spokane (Trentwood and Mead) and Tacoma, Washington; Gramercy, Louisiana; and Newark, Ohio. The Labor Contract replaced a contract that expired October 31, 1994, and was reached after an eight-day work stoppage by the USWA at these plants in February 1995.

The Labor Contract provides for base wages at all covered plants. In addition, workers covered by the Labor Contract may receive quarterly bonus payments based on various indices of profitability, productivity, efficiency, and other aspects of specific plant performance, as well as, in certain cases, the price of alumina or primary aluminum. Pursuant to the Labor Contract, base wage rates were raised effective January 2, 1995, were raised again effective November 6, 1995, and will be raised an additional amount effective November 3, 1997, and an amount in respect of the cost of living adjustment under the previous master agreement will be phased into base wages during the term of the Labor Contract. In the second quarter of 1995, KACC acquired up to \$2,000 of preference stock held in a stock plan for the benefit of each of approximately 82% of the employees covered by the Labor Contract and in the first half of 1998 will acquire up to an additional \$4,000 of such preference stock held in such plan for the benefit of substantially the same employees. In addition, a profitability test was satisfied and, therefore, KACC will acquire during 1996 up to an additional \$1,000 of such preference stock held in such plan for the benefit of substantially the same employees. KACC made and will make comparable acquisitions of preference stock held for the benefit of each of certain salaried employees.

In February 1995, Alpart's employees engaged in a six-day work stoppage by its National Workers Union, which was settled by a new contract.

Management considers KACC's employee relations to be satisfactory.

Environmental Matters

Kaiser and KACC are subject to a wide variety of international, federal, state and local environmental laws and regulations (the "Environmental Laws"). From time to time the Environmental Laws are amended and new ones are adopted. The Environmental Laws regulate, among other things, air and water emissions and discharges; the generation, storage, treatment, transportation, and disposal of solid and hazardous waste; the release of hazardous or toxic substances, pollutants and contaminants into the environment; and, in certain instances, the environmental condition of industrial property prior to transfer or sale. In addition, Kaiser and KACC are subject to various federal, state, and local workplace health and safety laws and regulations ("Health Laws").

From time to time, KACC is subject, with respect to its current and former operations, to fines or penalties assessed for alleged breaches of the Environmental and Health Laws and to claims and litigation brought by federal, state or local agencies and by private parties seeking remedial or other enforcement action under the Environmental and Health Laws or damages related to alleged injuries to health or to the environment, including claims with respect to certain waste disposal sites and the remediation of sites presently or formerly operated by KACC. See "Legal Proceedings." KACC currently is subject to a number of lawsuits under the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended by the Superfund Amendments and Reauthorization Act of 1986 ("CERCLA"). KACC, along with certain other entities, has been named as a Potentially Responsible Party ("PRP") for remedial costs at certain third-party

11

KAISER ALUMINUM CORPORATION AND SUBSIDIARY COMPANIES

ITEM 1. BUSINESS (continued)

sites listed on the National Priorities List under CERCLA and, in certain instances, may be exposed to joint and several liability for those costs or damages to natural resources. KACC's Mead, Washington, facility has been listed on the National Priorities List under CERCLA. In addition, in connection with certain of its asset sales, KACC has agreed to indemnify the purchasers with respect to certain liabilities (and associated expenses) resulting from acts or omissions arising prior to such dispositions, including environmental liabilities. While uncertainties are inherent in the final outcome of these matters, and it is presently impossible to determine the actual costs that ultimately may be incurred, Kaiser believes that the resolution of such uncertainties should not have a material adverse effect on KACC's consolidated financial position, results of operations, or liquidity.

Environmental capital spending was \$9.2 million in 1995, \$11.9 million in 1994, and \$12.6 million in 1993. Annual operating costs for pollution control, not including corporate overhead or depreciation, were approximately \$26.0 million in 1995, \$23.1 million in 1994, and \$22.4 million in 1993. Legislative, regulatory, and economic uncertainties make it difficult to project future spending for these purposes. However, Kaiser currently anticipates that in the 1996-1997 period, environmental capital spending will be within the range of \$27.0 - \$33.0 million per year, and operating costs for pollution control will be within the range of \$28.0 - \$29.0 million per year. In addition, \$4.5 million in cash expenditures in 1995, \$3.6 million in 1994, and \$7.2 million in 1993 were charged to previously established reserves relating to environmental costs. Approximately \$8.4 million is expected to be charged to such reserves in 1996.

Based on Kaiser's evaluation of these and other environmental matters, Kaiser has established environmental accruals primarily related to potential solid waste disposal and soil and groundwater remediation matters. See "Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources - Environmental Contingencies." The portion of Note 8 of the Notes to Consolidated Financial Statements in the Annual Report under the heading "Environmental Contingencies" is incorporated herein by reference.

ITEM 2. PROPERTIES

The locations and general character of the principal plants, mines, and other materially important physical properties relating to KACC's operations are described in "Business - The Company - Production Operations" and those descriptions are incorporated herein by reference. KACC owns in fee or leases all the real estate and facilities used in connection with its business. Plants and equipment and other facilities are generally in good condition and suitable for their intended uses, subject to changing environmental requirements. Although KACC's domestic aluminum smelters and alumina facility were initially designed early in KACC's history, they have been modified frequently over the years to incorporate technological advances in order to improve efficiency, increase capacity, and achieve energy savings. Kaiser believes that KACC's domestic plants are cost competitive on an international basis. Due to KACC's variable cost structure, the plants' operating costs are relatively lower in periods of low primary aluminum prices and relatively higher in periods of high primary aluminum prices.

KACC's obligations under the Credit Agreement entered into on February 17, 1994, as amended (the "1994 Credit Agreement") are secured by, among other things, mortgages on KACC's major domestic plants (other than the Gramercy alumina plant). See "Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources - Capital Structure" in the Annual Report.

ITEM 3. LEGAL PROCEEDINGS

Aberdeen Pesticide Dumps Site Matter

The Aberdeen Pesticide Dumps Site, listed on the Superfund National Priorities List, is composed of five separate sites around the town of Aberdeen, North Carolina (collectively, the "Sites"). The Sites are of concern to the United States Environmental Protection Agency (the "EPA") because of their past use as either pesticide formulation facilities or pesticide

KAISER ALUMINUM CORPORATION AND SUBSIDIARY COMPANIES

ITEM 3. LEGAL PROCEEDINGS (continued)

disposal areas from approximately the mid-1930's through the late-1980's. The United States filed a cost recovery complaint (the "Complaint") in the United States District Court for the Middle District of North Carolina, Rockingham Division, No. C-89-231-R, which, as amended, includes KACC and a number of other defendants. The Complaint, as amended, seeks reimbursement for past and future response costs and a determination of liability of the defendants under Section 107 of CERCLA. The EPA has performed a Remedial Investigation/Feasibility Study and issued a Record of Decision ("ROD") for the Sites in September 1991. The estimated cost of the major soil remediation remedy selected for the Sites is approximately \$32 million. Other possible remedies described in the ROD would have estimated costs of approximately \$53 million and \$222 million, respectively. The EPA has stated that it has incurred past costs at the Sites in the range of \$7.5-\$8 million as of February 9, 1993, and alleges that response costs will continue to be incurred in the future.

On May 20, 1993, the EPA issued three unilateral Administrative Orders under Section 106(a) of CERCLA ordering the respondents, including KACC, to perform the soil remedial design and remedial action described in the ROD for three of the Sites. The estimated cost as set forth in the ROD for the remedial action at the three Sites is approximately \$27 million. A number of other companies are also named as respondents. KACC has entered into a PRP Participation Agreement with certain of the respondents (the "Aberdeen Site PRP Group" or the "Group") to participate jointly in responding to the Administrative Orders dated May 20, 1993, regarding soil remediation, to share costs incurred on an interim basis, and to seek to reach a final allocation of costs through agreement or to allow such final allocation and determination of liability to be made by the United States District Court. By letter dated July 6, 1993, KACC has notified the EPA of its ongoing participation with such group of respondents which, as a group, are

intending to comply with the Administrative Orders to the extent consistent with applicable law. By letters dated December 30, 1993, the EPA notified KACC of its potential liability for, and requested that KACC, along with a number of other companies, undertake or agree to finance, groundwater remediation at certain of the Sites. The ROD-selected remedy for the groundwater remediation selected by EPA includes a variety of techniques. The EPA has estimated the total present worth cost, including thirty years of operation and maintenance, at approximately \$11.8 million. On June 22, 1994, the EPA issued two unilateral Administrative Orders under Section 106(a) of CERCLA ordering the respondents, including KACC, to undertake the groundwater remediation at three of the Sites. A PRP Participation Agreement with respect to groundwater remediation has been entered into by certain of the respondents, including KACC.

By letter dated March 6, 1996, KACC gave notice of withdrawal from the Aberdeen Site PRP Group pursuant to the provisions of the PRP Participation Agreement. KACC advised the Group and the EPA that even if it were liable for cleanup at the Sites, which it expressly denies, it had already contributed far more than its allocable potential share of response costs. KACC has advised the Group and the EPA that it has fully complied with the Unilateral Orders and that should additional evidence be presented which demonstrates KACC's liability in excess of the amount contributed to date, KACC would be willing to discuss the matter further at that time.

United States of America v. Kaiser Aluminum & Chemical Corporation

In February 1989, a civil action was filed by the United States Department of Justice (the "DOJ") at the request of the EPA against KACC in the United States District Court for the Eastern District of Washington, Case No. C-89-106-CLQ. The complaint alleged that emissions from certain stacks at KACC's Trentwood facility in Spokane, Washington intermittently violated the opacity standard contained in the Washington State Implementation Plan ("SIP"), approved by the EPA under the federal Clean Air Act. The complaint sought injunctive relief, including an order that KACC take all necessary action to achieve compliance with the SIP opacity limit and the assessment of civil penalties of not more than \$25,000 per day.

KACC and the EPA, without adjudication of any issue of fact or law, and without any admission of the violations alleged in the underlying complaint, have entered into a Consent Decree, which was approved by a Consent Order entered by the United States District Court for the Eastern District of Washington in January 1996. As approved, the Consent Decree

13

KAISER ALUMINUM CORPORATION AND SUBSIDIARY COMPANIES

ITEM 3. LEGAL PROCEEDINGS (continued)

settles the underlying disputes and requires KACC to (i) pay a \$.5 million civil penalty (which penalty has been paid), (ii) complete a program of plant improvements and operational changes that began in 1990 at its Trentwood facility, including the installation of an emission control system to capture particulate emissions from certain furnaces, and (iii) achieve and maintain furnace compliance with the opacity standard in the SIP by no later than February 28, 1997. The Company anticipates that capital expenditures for the environmental upgrade of the furnace operation at its Trentwood facility, including the improvements and changes required by the Consent Decree, will be approximately \$20.0 million.

Catellus Development Corporation v. Kaiser Aluminum & Chemical Corporation and James L. Ferry & Son Inc.

In January 1991, the City of Richmond, et al. (the "Plaintiffs") filed a Second Amended Complaint for Damages and Declaratory Relief against the United States, Catellus Development Corporation ("Catellus") and other defendants (collectively, the "Defendants") alleging, among other things, that the Defendants caused or allowed hazardous substances, pollutants, contaminants, debris and other solid wastes to be discharged, deposited, disposed of or released on certain property located in Richmond, California (the "Property") formerly owned by Catellus and leased to KACC for the purpose of shipbuilding activities conducted by KACC on behalf of the

United States during World War II. The Plaintiffs sought recovery of response costs and natural resource damages under CERCLA. Certain of the Plaintiffs alleged they had incurred or expected to incur costs and damages of approximately \$49.0 million. Catellus subsequently filed a third party complaint (the "Third Party Complaint") against KACC in the United States District Court for the Northern District of California, Case No. C-89-2935 DLJ. Thereafter, the Plaintiffs filed a separate complaint against KACC, Case No. C-92-4176. The Plaintiffs settled their CERCLA and tort claims against the United States for \$3.5 million plus thirty-five percent (35%) of future response costs.

The trial involving this case commenced in March 1995. During the trial, Plaintiffs settled their claims against Catellus in exchange for payment of approximately \$3.25 million. Subsequently, on June 2, 1995, the United States District Court for the Northern District of California issued an order on the remaining claims in that action. On December 7, 1995, the District Court issued the Final Judgment on those claims concluding that KACC is liable for various costs and interest, aggregating approximately \$2.2 million, fifty percent (50%) of future costs of cleaning up certain parts of the Property and certain fees and costs associated specifically with the claim by Catellus against KACC. In January 1996, Catellus filed a notice of appeal with respect to its indemnity judgment against KACC. KACC has since filed a notice of cross appeal as to the Court's decision adjudicating that KACC is obligated to indemnify Catellus. In February 1996, the Plaintiffs filed motions, which KACC intends to contest, seeking reimbursement of fees and costs from KACC in the aggregate amount of \$2.76 million. Based on KACC's estimate of future costs of cleanup, resolution of the Catellus matter is not expected to have a material adverse effect on Kaiser's consolidated financial condition, results of operations, or liquidity.

Waste Inc. Superfund Site

On December 8, 1995, the EPA issued a unilateral Administrative Order for Remedial Design and Remedial Action under CERCLA to KACC and thirty-one other respondents for remedial design and action at the Waste Inc. Superfund Site at Michigan City, Indiana. This site was operated as a landfill from 1965 to 1982. KACC is alleged to have arranged for the disposal of waste from its formerly-owned plant at Wanatah, Indiana, during the period from 1964 to 1972. In its Record of Decision, the EPA estimated the cost of the work to be performed to have a present value of \$15.7 million. KACC's share of the total waste sent to the site is unknown. A consultant retained by a group of PRPs estimated that KACC contributed 2.0% of the waste sent to the site by the forty-one largest contributors. KACC's ultimate exposure will depend on the number of PRPs that participate and the volume of waste properly allocable to KACC. Based on the EPA's cost estimate, KACC believes that its financial exposure for remedial design and remedial action at this site is less than \$500,000. A PRP participation agreement is under negotiation.

KAISER ALUMINUM CORPORATION AND SUBSIDIARY COMPANIES

ITEM 3. LEGAL PROCEEDINGS (continued)

Hammons v. Alcan Aluminum Corp. et al

On March 5, 1996, a class action complaint was filed in California against the Company, Alcan Aluminum Corp., Aluminum Company of America, Alumax, Inc, Reynolds Metal Company, the Aluminum Association and others in the Superior Court of California for the County of Los Angeles, Case No. BC145612. The complaint claims that the defendants conspired, in violation of state antitrust laws, to raise, stabilize and maintain the price of primary aluminum and aluminum products through cuts in production allegedly in connection with the ratification of a Memorandum of Understanding in 1994 by representatives of the authorities of Australia, Canada, the European Union, Norway, the Russian Federation and the United States. The complaint seeks certification of a class consisting of persons who at any time between January 1, 1994, and the date of the complaint purchased aluminum or aluminum products manufactured by one or more of the defendants and estimates damages sustained by the class to be \$4.4 billion, before

trebling.

Matheson et al v. Kaiser Aluminum Corporation et al

On September 11, 1995, Kaiser announced that it had appointed an independent committee of its Board of Directors to consider a possible recapitalization transaction. On February 5, 1996, Kaiser publicly announced that it had filed a preliminary proxy statement with the Securities and Exchange Commission relating to a proposed recapitalization. A special shareholders' meeting to consider the recapitalization was subsequently scheduled for April 10, 1996, and the definitive proxy statement was mailed to shareholders commencing on March 20, 1996. See Note 7 of the Notes to Consolidated Financial Statements of the Company, under the heading Proposed Recapitalization, at pages 50-51 of the Annual Report for a description of the proposed recapitalization. On March 19, 1996, a lawsuit was filed against MAXXAM, Kaiser, and Kaiser's directors challenging and seeking to enjoin the recapitalization and the April 10, 1996, special shareholders' meeting. The suit, which is entitled Matheson et al v. Kaiser Aluminum Corporation et al (No. 14900) and was filed in the Delaware Court of Chancery, purports to be a class action by persons who as of March 18, 1996 (the record date for the April 10, 1996, meeting) owned Kaiser's outstanding common stock and 8.255% PRIDES, Convertible Preferred Stock ("PRIDES"). Plaintiffs allege, among other things, breaches of fiduciary duties by certain defendants and that the proposed recapitalization violates Delaware law and the certificate of designation for the PRIDES. Plaintiffs seek injunctive relief, rescission, rescissory damages and other relief. A hearing on the motion for injunctive relief is presently scheduled for April 8, 1996.

Asbestos-related Litigation

KACC is a defendant in a number of lawsuits, some of which involve claims of multiple persons, in which the plaintiffs allege that certain of their injuries were caused by, among other things, exposure to asbestos during, and as a result of, their employment or association with KACC or exposure to products containing asbestos produced or sold by KACC. The lawsuits generally relate to products KACC has not manufactured for at least 15 years. At December 31, 1995, the number of such claims pending was approximately 59,700, as compared with 25,200 at December 31, 1994. In 1995, approximately 41,700 of such claims were received and 7,200 settled or dismissed. KACC has been advised by its regional counsel that, although there can be no assurance, the recent increase in pending claims may be attributable in part to tort reform legislation in Texas which was passed by the legislature in March 1995 and which became effective on September 1, 1995. The legislation, among other things, is designed to restrict, beginning September 1, 1995, the filing of cases in Texas that do not have a sufficient nexus to that jurisdiction, and to impose, generally as of September 1, 1996, limitations relating to joint and several liability in tort cases. A substantial portion of the asbestos-related claims that were filed and served on KACC between June 30, 1995, and November 30, 1995, were filed in Texas prior to September 1, 1995. For additional information, see "Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources - Asbestos Contingencies." The portion of Note 8 of the Notes to Consolidated Financial Statements in the Annual Report under the heading "Asbestos Contingencies" is incorporated herein by reference.

15

KAISER ALUMINUM CORPORATION AND SUBSIDIARY COMPANIES

ITEM 3. LEGAL PROCEEDINGS (continued)

Other Proceedings

On August 24, 1994, the DOJ issued Civil Investigative Demand No. 11356 ("CID No. 11356") requesting information from Kaiser regarding (i) its production, capacity to produce, and sales of primary aluminum from January 1, 1991, to the date of the response; (ii) any actual or contemplated reduction in its production of primary aluminum during that period; and (iii) any communications with others regarding any actual, contemplated, possible or desired reductions in primary aluminum production by Kaiser or

any of its competitors during that period. Management believes that Kaiser's actions have at all times been appropriate, and Kaiser has submitted documents and interrogatory answers to the DOJ responding to CID No. 11356.

On March 27, 1995, the DOJ issued Civil Investigative Demand No. 12503 ("CID No. 12503"), as part of an industry-wide investigation, requesting information from KACC regarding (i) any actual or contemplated changes in its method of pricing can stock from January 1, 1994, through March 31, 1995, (ii) the percentage of aluminum scrap and primary aluminum ingot used by KACC to produce can stock and the manner in which KACC's cost of acquiring aluminum scrap is factored into its can stock prices, and (iii) any communications with others regarding any actual or contemplated changes in its method of pricing can stock from January 1, 1994, through March 31, 1995. Kaiser believes that KACC's actions have at all times been appropriate, and KACC has submitted documents and interrogatory answers to the DOJ responding to CID No. 12503.

Various other lawsuits and claims are pending against KACC. While uncertainties are inherent in the final outcome of such matters and it is presently impossible to determine the actual costs that ultimately may be incurred, management believes that the resolution of such uncertainties and the incurrence of such costs should not have a material adverse effect on the Company's consolidated financial position, results of operations, or liquidity.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matter was submitted to a vote of security holders of the Company during the fourth quarter of 1995.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

The Company's common stock is traded on the New York Stock Exchange under the symbol "KLU". The number of record holders of the Company's common stock at March 15, 1996 was 169. Page 59 of the Annual Report, and the information in Note 7 of the Notes to Consolidated Financial Statements under the heading "Dividends on Common Stock" at page 50 of the Annual Report, are incorporated herein by reference. The Company has not paid any dividends on its common stock during the two most recent fiscal years.

The 1994 Credit Agreement (Exhibits 4.6 through 4.11 to this Report) contains restrictions on the ability of the Company to pay dividends on or make distributions on account of the Company's common stock, and the 1994 Credit Agreement and the Indentures (Exhibits 4.1 through 4.5 to this Report) contain restrictions on the ability of the Company's subsidiaries to transfer funds to the Company in the form of cash dividends, loans or advances. Exhibits 4.1 through 4.11 to this Report, Note 4 of the Notes to Consolidated Financial Statements at pages 37-39 of the Annual Report, and the information under the heading "Liquidity and Capital Resources - Capital Structure" at pages 22-24 of the Annual Report, are incorporated herein by reference.

KAISER ALUMINUM CORPORATION AND SUBSIDIARY COMPANIES

- - - - -

ITEM 6. SELECTED FINANCIAL DATA

Selected financial data for the Company is incorporated herein by reference to the table at page 3 of this Report, to the table at page 20 of the Annual Report, to the discussion under the heading "Results of Operations" at page 21 of the Annual Report, to Note 1 of the Notes to Consolidated Financial Statements at pages 33-35 of the Annual Report, and to pages 57-58 of the Annual Report.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Pages 20-28 of the Annual Report are incorporated herein by reference.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Pages 29-56 and page 59 of the Annual Report are incorporated herein by reference.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

PART III

Information required under PART III (Items 10, 11, 12, and 13) has been omitted from this Report since the Company intends to file with the Securities and Exchange Commission, not later than 120 days after the close of its fiscal year, a definitive proxy statement pursuant to Regulation 14A which involves the election of directors.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

(a) Index to Financial Statements and Schedules

1. Financial Statements

The Consolidated Financial Statements of the Company, the Notes to Consolidated Financial Statements, the Report of Independent Public Accountants, and Quarterly Financial Data are included on pages 29-56 and 59 of the Annual Report.

2. Financial Statement Schedules Page

Report of Independent Public Accountants. 19

Schedule I - Condensed Balance Sheets - Parent Company, Condensed Statements of Income - Parent Company, Condensed Statements of Cash Flows - Parent Company, and Notes to Condensed Financial Statements - Parent Company20-23

All other schedules are inapplicable or the required information is included in the Consolidated Financial Statements or the Notes thereto.

KAISER ALUMINUM CORPORATION AND SUBSIDIARY COMPANIES

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K (continued)

3. Exhibits

Reference is made to the Index of Exhibits immediately preceding the exhibits hereto (beginning on page 25), which index is incorporated herein by reference.

(b) Reports on Form 8-K

No Report on Form 8-K was filed by the Company during the last quarter of the period covered by this Report.

(c) Exhibits

Reference is made to the Index of Exhibits immediately preceding the exhibits hereto (beginning on page 25), which index is incorporated herein by reference.

18

KAISER ALUMINUM CORPORATION AND SUBSIDIARY COMPANIES

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

We have audited, in accordance with generally accepted auditing standards, the financial statements included in Kaiser Aluminum Corporation and Subsidiaries' annual report to shareholders incorporated by reference in this Form 10-K and have issued our report thereon dated February 16, 1996. Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. Schedule I listed in the index at Item 14(a)2. above is the responsibility of the Company's management and is presented for purposes of complying with the Securities and Exchange Commission's rules and is not part of the basic financial statements. This schedule has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, fairly states in all material respects the financial data required to be set forth therein in relation to the basic financial statements taken as a whole.

Arthur Andersen LLP
Houston, Texas
February 16, 1996

KAISER ALUMINUM CORPORATION AND SUBSIDIARY COMPANIES

SCHEDULE I
CONDENSED BALANCE SHEETS - PARENT COMPANY

(In millions of dollars, except share amounts)

| | December 31, | |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------|-----------|
| | 1995 | 1994 |
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | \$.2 | \$ 5.7 |
| Note receivable from KACC | 10.7 | 21.2 |
| Total current assets | 10.9 | 26.9 |
| Note receivable from KACC | 8.6 | 23.5 |
| Investments - KACC | 1,521.3 | 1,361.0 |
| Total | \$1,540.8 | \$1,411.4 |
| | ===== | ===== |
| Liabilities and Stockholders' Equity | | |
| Current liabilities | \$ 3.3 | \$ 6.4 |
| Intercompany note payable to KACC, including accrued interest | 1,479.8 | 1,387.7 |
| Stockholders' equity: | | |
| Preferred stock, par value \$.05, authorized 20,000,000 shares; Series A Convertible, stated value \$.10 issued and outstanding, nil and 1,938,295 in 1995 and 1994 | | .2 |
| PRIDES Convertible, par value \$.05, issued and outstanding, 8,673,850 and 8,855,550 in 1995 and 1994 | .4 | .4 |
| Common stock, par value \$.01, authorized 100,000,000 shares; issued and outstanding 71,638,514 and 58,205,083 in 1995 and 1994 | .7 | .6 |
| Additional capital | 530.3 | 527.8 |
| Accumulated deficit | (459.9) | (502.6) |
| Additional minimum pension liability | (13.8) | (9.1) |
| Total stockholders' equity | 57.7 | 17.3 |
| Total | \$1,540.8 | \$1,411.4 |
| | ===== | ===== |

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

KAISER ALUMINUM CORPORATION AND SUBSIDIARY COMPANIES

SCHEDULE I
 CONDENSED STATEMENTS OF INCOME - PARENT COMPANY

(In millions of dollars)

| | December 31, | | |
|-------------------------------------|--------------|------------|------------|
| | 1995 | 1994 | 1993 |
| Equity in income (loss) of KACC | \$ 152.8 | \$ (20.4) | \$ (537.2) |
| Administrative and general expenses | (.4) | (.3) | (.4) |
| Other income (expense): | | | |
| Interest expense | (92.1) | (86.1) | (115.8) |
| Other income | | | 1.2 |
| Net income (loss) | \$ 60.3 | \$ (106.8) | \$ (652.2) |
| | ===== | ===== | ===== |

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

21

KAISER ALUMINUM CORPORATION AND SUBSIDIARY COMPANIES

SCHEDULE I
 CONDENSED STATEMENTS OF CASH FLOWS - PARENT COMPANY

(In millions of dollars)

| | December 31, | | |
|-----------------------------------------------------------------------------------------------------|--------------|------------|------------|
| | 1995 | 1994 | 1993 |
| Cash flows from operating activities: | | | |
| Net income (loss) | \$ 60.3 | \$ (106.8) | \$ (652.2) |
| Adjustments to reconcile net income (loss) to net cash provided by (used for) operating activities: | | | |
| Equity in (income) loss of KACC | (152.8) | 20.4 | 537.2 |
| Accrued interest on intercompany note payable to KACC | 92.1 | 86.1 | 115.8 |
| Increase (decrease) in other liabilities | .2 | .3 | (1.0) |
| Net cash used for operating activities | (.2) | | (.2) |
| Cash flows from investing activities: | | | |
| Investment in KACC | (1.2) | (66.9) | (81.5) |
| Net cash used for investing activities | (1.2) | (66.9) | (81.5) |
| Cash flows from financing activities: | | | |
| Dividends paid | (20.8) | (14.8) | (6.3) |
| Capital stock issued | 1.2 | 100.1 | 119.3 |
| Intercompany notes issued by KACC - net | 15.5 | (13.2) | (31.5) |
| Net cash (used for) provided by financing activities | (4.1) | 72.1 | 81.5 |

| | | | |
|----------------------------------------------------------------------|--------|--------|---------|
| Net (decrease) increase in cash and cash equivalents during the year | (5.5) | 5.2 | (.2) |
| Cash and cash equivalents at beginning of year | 5.7 | .5 | .7 |
| Cash and cash equivalents at end of year | \$.2 | \$ 5.7 | \$.5 |
| Supplemental disclosure of non-cash investing activities: | | | |
| Non-cash investment in KACC | \$ 9.9 | | \$ 15.0 |

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

22

KAISER ALUMINUM CORPORATION AND SUBSIDIARY COMPANIES

SCHEDULE I

NOTES TO CONDENSED FINANCIAL STATEMENTS - PARENT COMPANY

1. Basis of Presentation

The accompanying parent company financial statements of Kaiser Aluminum Corporation ("Kaiser") should be read in conjunction with the 1995 consolidated financial statements of Kaiser and Subsidiary Companies.

Kaiser is a holding company and conducts its operations through its wholly owned subsidiary, Kaiser Aluminum & Chemical Corporation ("KACC"), which is reported herein using the equity method of accounting.

2. Intercompany Note Payable

The Intercompany Note to KACC was amended in July 1993 to decrease the fixed interest rate from 13% to 6-5/8%. No interest or principal payments are due until December 31, 2000, after which interest and principal will be payable over a 15-year term pursuant to a predetermined schedule.

3. Restricted Net Assets

The investment in KACC is substantially unavailable to Kaiser pursuant to the terms of certain debt instruments. The obligations of KACC in respect of the credit facilities under the 1994 Credit Agreement are guaranteed by Kaiser and by all significant subsidiaries of KACC. See Note 4 of the Notes to Consolidated Financial Statements.

23

KAISER ALUMINUM CORPORATION AND SUBSIDIARY COMPANIES

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: March 27, 1996

KAISER ALUMINUM CORPORATION
By George T. Haymaker, Jr.

George T. Haymaker, Jr.
Chairman of the Board and
Chief Executive Officer

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

| | |
|----------------------|------------------------------------------------------------------------------------------------------------------------------------------------------|
| Date: March 27, 1996 | George T. Haymaker, Jr. ----- George T. Haymaker, Jr. Chairman of the Board and Chief Executive Officer (Principal Executive Officer) |
| Date: March 27, 1996 | John T. La Duc ----- John T. La Duc Vice President and Chief Financial Officer (Principal Financial Officer) |
| Date: March 27, 1996 | Arthur S. Donaldson ----- Arthur S. Donaldson Controller (Principal Accounting Officer) |
| Date: March 27, 1996 | Robert J. Cruikshank ----- Robert J. Cruikshank Director |
| Date: March 27, 1996 | Charles E. Hurwitz ----- Charles E. Hurwitz Director |
| Date: March 27, 1996 | Ezra G. Levin ----- Ezra G. Levin Director |
| Date: March 27, 1996 | Robert Marcus ----- Robert Marcus Director |
| Date: March 27, 1996 | Robert J. Petris ----- Robert J. Petris Director |

24

KAISER ALUMINUM CORPORATION AND SUBSIDIARY COMPANIES

INDEX OF EXHIBITS

| Exhibit Number ----- | Description ----- |
|----------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 3.1 | Restated Certificate of Incorporation of Kaiser Aluminum Corporation (the "Company" or "KAC"), dated February 21, 1991 (incorporated by reference to Exhibit 3.1 to Amendment No. 2 to the Registration Statement on Form S-1, dated June 11, 1991, filed by KAC, Registration No. 33-37895). |
| *3.2 | Certificate of Retirement of KAC, dated October 24, 1995. |
| 3.3 | By-laws of KAC, amended as of February 26, 1991 (incorporated by reference to Exhibit 3.2 to Amendment No. 2 to the Registration |

Statement on Form S-1, dated June 11, 1991, filed by KAC, Registration No. 33-37895).

- 4.1 Indenture, dated as of February 1, 1993, among KACC, as Issuer, Kaiser Alumina Australia Corporation, Alpart Jamaica Inc., and Kaiser Jamaica Corporation, as Subsidiary Guarantors, and The First National Bank of Boston, as Trustee, regarding KACC's 12-3/4% Senior Subordinated Notes Due 2003 (incorporated by reference to Exhibit 4.1 to Form 10-K for the period ended December 31, 1992, filed by KACC, File No. 1-3605).
- 4.2 First Supplemental Indenture, dated as of May 1, 1993, to the Indenture, dated as of February 1, 1993 (incorporated by reference to Exhibit 4.2 to the Report on Form 10-Q for the quarterly period ended June 30, 1993, filed by KACC, File No. 1-3605).
- *4.3 Second Supplemental Indenture, dated as of February 1, 1996, to the Indenture, dated as of February 1, 1993.
- 4.4 Indenture, dated as of February 17, 1994, among KACC, as Issuer, Kaiser Alumina Australia Corporation, Alpart Jamaica Inc., Kaiser Jamaica Corporation, and Kaiser Finance Corporation, as Subsidiary Guarantors, and First Trust National Association, as Trustee, regarding KACC's 9-7/8% Senior Notes Due 2002 (incorporated by reference to Exhibit 4.3 to the Report on Form 10-K for the period ended December 31, 1993, filed by KAC, File No. 1-9447).
- *4.5 First Supplemental Indenture, dated as of February 1, 1996, to the Indenture, dated as of February 17, 1994.
- 4.6 Credit Agreement, dated as of February 17, 1994, among KAC, KACC, the financial institutions a party thereto, and BankAmerica Business Credit, Inc., as Agent (incorporated by reference to Exhibit 4.4 to the Report on Form 10-K for the period ended December 31, 1993, filed by KAC, File No. 1-9447).
- 4.7 First Amendment to Credit Agreement, dated as of July 21, 1994, amending the Credit Agreement, dated as of February 17, 1994, among KAC, KACC, the financial institutions party thereto, and BankAmerica Business Credit, Inc., as Agent (incorporated by reference to Exhibit 4.1 to the Report on Form 10-Q for the quarterly period ended June 30, 1994, filed by KAC, File No. 1-9447).
- 4.8 Second Amendment to Credit Agreement, dated as of March 10, 1995, amending the Credit Agreement, dated as of February 17, 1994, as amended, among KAC, KACC, the financial institutions party thereto, and BankAmerica Business Credit, Inc., as Agent (incorporated by reference to Exhibit 4.6 to the Report on Form 10-K for the period ended December 31, 1994, filed by KAC, File No. 1-9447).

25

KAISER ALUMINUM CORPORATION AND SUBSIDIARY COMPANIES

Exhibit
Number

Description

- 4.9 Third Amendment to Credit Agreement, dated as of July 20, 1995, amending the Credit Agreement, dated as of February 17, 1994, as amended, among KAC, KACC, the financial institutions a party thereto, and BankAmerica Business Credit, Inc., as Agent (incorporated by reference to Exhibit 4.1 to the Report on Form 10-Q for the quarterly period ended June 30, 1995, filed by KAC, File No. 1-9447).
- 4.10 Fourth Amendment to Credit Agreement, dated as of October 17, 1995, amending the Credit Agreement, dated as of February 17, 1994, as amended, among KAC, KACC, the financial institutions a

party thereto, and BankAmerica Business Credit, Inc., as Agent (incorporated by reference to Exhibit 4.1 to the Report on Form 10-Q for the quarterly period ended September 30, 1995, filed by KAC, File No. 1-9447).

- *4.11 Fifth Amendment to Credit Agreement, dated as of December 11, 1995, amending the Credit Agreement, dated as of February 17, 1994, as amended, among KAC, KACC, the financial institutions a party thereto, and BankAmerica Business Credit, Inc., as Agent.
- 4.12 Certificate of Designations of Series A Mandatory Conversion Premium Dividend Preferred Stock of KAC, dated June 28, 1993 (incorporated by reference to Exhibit 4.3 to the Report on Form 10-Q for the quarterly period ended June 30, 1993, filed by KAC, File No. 1-9447).
- 4.13 Deposit Agreement between KAC and The First National Bank of Boston, dated as of June 30, 1993 (incorporated by reference to Exhibit 4.4 to the Report on Form 10-Q for the quarterly period ended June 30, 1993, filed by KAC, File No. 1-9447).
- 4.14 Intercompany Note between KAC and KACC (incorporated by reference to Exhibit 4.2 to Amendment No. 5 to the Registration Statement on Form S-1, dated December 13, 1989, filed by KACC, Registration No. 33-30645).
- 4.15 Senior Subordinated Intercompany Note between KACC and a subsidiary of MAXXAM, dated December 15, 1992 (incorporated by reference to Exhibit 4.10 to the Report on Form 10-K for the period ended December 31, 1994, filed by KAC, File No. 1-9447).
- 4.16 Certificate of Designations of 8.255% PRIDES, Convertible Preferred Stock of KAC, dated February 17, 1994 (incorporated by reference to Exhibit 4.21 to the Report on Form 10-K for the period ended December 31, 1993, filed by KAC, File No. 1-9447).
- 4.17 Senior Subordinated Intercompany Note between KAC and KACC dated February 15, 1994 (incorporated by reference to Exhibit 4.22 to the Report on Form 10-K for the period ended December 31, 1993, filed by KAC, File No. 1-9447).
- 4.18 Senior Subordinated Intercompany Note between KAC and KACC dated March 17, 1994 (incorporated by reference to Exhibit 4.23 to the Report on Form 10-K for the period ended December 31, 1993, filed by KAC, File No. 1-9447).
- 4.19 Senior Subordinated Intercompany Note between KAC and KACC dated June 30, 1993 (incorporated by reference to Exhibit 4.24 to the Report on Form 10-K for the period ended December 31, 1993, filed by KAC, File No. 1-9447).

26

KAISER ALUMINUM CORPORATION AND SUBSIDIARY COMPANIES

Exhibit
Number

Description

-
- KAC has not filed certain long-term debt instruments not being registered with the Securities and Exchange Commission where the total amount of indebtedness authorized under any such instrument does not exceed 10% of the total assets of KAC and its subsidiaries on a consolidated basis. KAC agrees and undertakes to furnish a copy of any such instrument to the Securities and Exchange Commission upon its request.
- 10.1 Form of indemnification agreement with officers and directors (incorporated by reference to Exhibit (10)(b) to the Registration Statement of KAC on Form S-4, File No. 33-12836).
 - 10.2 Tax Allocation Agreement between MAXXAM and KACC (incorporated by

reference to Exhibit 10.21 to Amendment No. 6 to the Registration Statement on Form S-1, dated December 14, 1989, filed by KACC, Registration No. 33-30645).

- 10.3 Tax Allocation Agreement between KAC and MAXXAM (incorporated by reference to Exhibit 10.23 to Amendment No. 2 to the Registration Statement on Form S-1, dated June 11, 1991, filed by KAC, Registration No. 33-37895).
- 10.4 Tax Allocation Agreement, dated as of June 30, 1993, between KACC and KAC (incorporated by reference to Exhibit 10.3 to the Report on Form 10-Q for the quarterly period ended June 30, 1993, filed by KACC, File No. 1-3605).
- 10.5 Assumption Agreement, dated as of October 28, 1988 (incorporated by reference to Exhibit HHH to the Final Amendment to the Schedule 13D of MAXXAM Group Inc. and others in respect of the Common Stock of KAC, par value \$.33-1/3 per share).
- 10.6 Agreement, dated as of June 30, 1993, between KAC and MAXXAM (incorporated by reference to Exhibit 10.2 to the Report on Form 10-Q for the quarterly period ended June 30, 1993, filed by KACC, File No. 1-3605).

Executive Compensation Plans and Arrangements
[Exhibits 10.7 - 10.20, inclusive]

- 10.7 KACC's Bonus Plan (incorporated by reference to Exhibit 10.25 to Amendment No. 6 to the Registration Statement on Form S-1, dated December 14, 1989, filed by KACC, Registration No. 33-30645).
- 10.8 Kaiser 1993 Omnibus Stock Incentive Plan (incorporated by reference to Exhibit 10.1 to the Report on Form 10-Q for the quarterly period ended June 30, 1993, filed by KACC, File No. 1-3605).
- 10.9 Kaiser 1995 Employee Incentive Compensation Program (incorporated by reference to Exhibit 10.1 to the Report on Form 10-Q for the quarterly period ended March 31, 1995, filed by KAC, File No. 1-9447).
- 10.10 Kaiser 1995 Executive Incentive Compensation Program (incorporated by reference to Exhibit 99 to the Proxy Statement, dated April 26, 1995, filed by KAC, File No. 1-9447).
- 10.11 Employment Agreement, dated April 1, 1993, among KAC, KACC, and George T. Haymaker, Jr. (incorporated by reference to Exhibit 10.2 to the Report on Form 10-Q for the quarterly period ended March 31, 1993, filed by KAC, File No. 1-9447).

KAISER ALUMINUM CORPORATION AND SUBSIDIARY COMPANIES

| Exhibit Number ----- | Description ----- |
|----------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 10.12 | Promissory Note, dated October 4, 1990, by Robert W. Ireland and Barbara M. Ireland to KACC (incorporated by reference to Exhibit 10.54 to Form 10-K for the period ended December 31, 1990, filed by MAXXAM, File No. 1-3924). |
| 10.13 | Promissory Note, dated February 1, 1989, by Anthony R. Pierno and Beverly J. Pierno to MAXXAM (incorporated by reference to Exhibit 10.30 to Form 10-K for the period ended December 31, 1988, filed by MAXXAM, File No. 1-3924). |
| 10.14 | Promissory Note, dated July 19, 1990, by Anthony R. Pierno to MAXXAM (incorporated by reference to Exhibit 10.31 to Form 10-K for the period ended December 31, 1990, filed by MAXXAM, File No. 1-3924). |

- 10.15 Promissory Note, dated July 20, 1993, between MAXXAM and Byron L. Wade (incorporated by reference to Exhibit 10.59 to Form 10-K for the period ended December 31, 1993, filed by MAXXAM, File No. 1-3924).
- 10.16 Employment Agreement, dated August 20, 1993, between KACC and Robert E. Cole (incorporated by reference to Exhibit 10.63 to Form 10-K for the period ended December 31, 1993, filed by MAXXAM, File No. 1-3924).
- 10.17 Compensation Agreement, dated July 18, 1994, between KACC and Larry L. Watts (incorporated by reference to Exhibit 10.1 to the Report on Form 10-Q for the quarterly period ended June 30, 1994, filed by KAC, File No. 1-9447).
- 10.18 Compensation Agreement, dated July 18, 1994, between KACC and Geoff S. Smith (incorporated by reference to Exhibit 10.2 to the Report on Form 10-Q for the quarterly period ended June 30, 1994, filed by KAC, File No. 1-9447).
- 10.19 Letter Agreement, dated January 1995, between KAC and Charles E. Hurwitz, granting Mr. Hurwitz stock options under the Kaiser 1993 Omnibus Stock Incentive Plan (incorporated by reference to Exhibit 10.17 to the Report on Form 10-K for the period ended December 31, 1994, filed by KAC, File No. 1-9447).
- 10.20 Form of letter agreement with persons granted stock options under the Kaiser 1993 Omnibus Stock Incentive Plan to acquire shares of KAC common stock (incorporated by reference to Exhibit 10.18 to the Report on Form 10-K for the period ended December 31, 1994, filed by KAC, File No. 1-9447).
- *11 Computation of Earnings Per Common and Common Equivalent Share.
- *13 The portions of KAC's Annual Report to shareholders for the year ended December 31, 1995, which are incorporated by reference into this Report.
- *21 Significant Subsidiaries of KAC.
- *27 Financial Data Schedule.

* Filed herewith

KAISER ALUMINUM CORPORATION AND SUBSIDIARY COMPANIES

Exhibit 21

SUBSIDIARIES

Listed below are the principal subsidiaries of Kaiser Aluminum Corporation, the jurisdiction of their incorporation or organization and the names under which such subsidiaries do business. Certain subsidiaries are omitted which, considered in the aggregate as a single subsidiary, would not constitute a significant subsidiary.

| Name ----- | Place of Incorporation or Organization ----- |
|---------------|-------------------------------------------------------|
|---------------|-------------------------------------------------------|

| | |
|-----------------------------------------------|----------------|
| Alpart Jamaica Inc. | Delaware |
| Alumina Partners of Jamaica (partnership) . . | Delaware |
| Anglesey Aluminium Limited | United Kingdom |
| Kaiser Alumina Australia Corporation | Delaware |
| Kaiser Aluminium International, Inc. | Delaware |
| Kaiser Aluminum & Chemical Corporation . . . | Delaware |
| Kaiser Aluminum & Chemical of Canada Limited | Ontario |
| Kaiser Bauxite Company | Nevada |
| Kaiser Finance Corporation | Delaware |
| Kaiser Jamaica Bauxite Company (partnership) | Jamaica |
| Kaiser Jamaica Corporation | Delaware |
| Queensland Alumina Limited | Queensland |
| Volta Aluminium Company Limited. | Ghana |

KAISER ALUMINUM CORPORATION AND SUBSIDIARY COMPANIES

| | | |
|----------------|-----------------------------------|----------------------------------------|
| Domestic | California | Pennsylvania |
| | ----- | ----- |
| Operations | Los Angeles (City of Commerce) | Erie |
| (Partial List) | Extruded Products | Forgings Plant and Offices |
| | Los Angeles (Santa Fe Springs) | South Carolina |
| | | ----- |
| | Extruded Products Fabricating | Greenwood |
| | Oxnard | Forgings |
| | Forgings | Greenwood |
| | Pleasanton | Machine Shop |
| | R&D at the Center for Technology, | Tennessee |
| | | ----- |
| | Administrative Offices | Jackson |
| | Florida | Extruded Products |
| | ----- | |
| | Mulberry | Texas |
| | | ----- |
| | Sodium Silicofluoride, | Dallas |
| | Potassium Silicofluoride | Extruded Products Offices |
| | Louisiana | |
| | ----- | |
| | Baton Rouge | Houston |
| | Alumina, Kaiser Alumina | |
| | Technical Services, | Kaiser Aluminum Corporation |
| | | Headquarters |
| | International Business | Sherman |
| | Development, and | Extruded Products |
| | Environmental Offices | Washington |
| | Gramercy | ----- |
| | Alumina | Mead |
| | Michigan | Primary Aluminum, |
| | ----- | |
| | Detroit (Southfield) | Division Technology Center |
| | Automotive Product Development | |
| | and Sales | Richland |
| | Ohio | Extruded Products |
| | ----- | |
| | Canton | Tacoma |
| | Castings | Primary Aluminum |
| | Newark | Trentwood |
| | Extruded Products | Flat-Rolled Products Plant and Offices |
| | Oklahoma | |
| | ----- | |
| | Tulsa | |
| | Aluminum and Magnesium | |

Extruded Products; Anodes

| Worldwide | Australia | Japan |
|------------------------------|---------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------|
| Operations (Partial List) | Queensland Alumina Limited (28.3% owned) Alumina | Furukawa Kaiser Forged Products Company (47.5%) Sales Office |
| | Canada Kaiser Aluminum & Chemical of Canada Limited (100%) Extruded Products | The Netherlands Kaiser Aluminum Mill Products Inc. (100%) Sales Office |
| | Ghana Volta Aluminium Company Limited (90%) Primary Aluminum | Russia Kaiser Aluminium Russia, Inc. (100%) International Business Development Wales, United Kingdom |
| | Jamaica Alumina Partners of Jamaica (65%) Bauxite, Alumina Kaiser Jamaica Bauxite Company (49%) Bauxite | Anglesey Aluminium Limited (49%) Primary Aluminum |

Table of Contents
 - -----

| | |
|---------------------------------------------------------------------------------------|----|
| Management's Discussion and Analysis of Financial Condition and Results of Operations | 20 |
| Report of Independent Public Accountants | 29 |
| Consolidated Balance Sheets | 30 |
| Statements of Consolidated Income (Loss) | 31 |
| Statements of Consolidated Cash Flows | 32 |
| Notes to Consolidated Financial Statements | 33 |
| Five-Year Financial Data | 57 |
| Quarterly Financial Data (Unaudited) | 59 |
| Corporate Information | 60 |

KAISER ALUMINUM CORPORATION AND SUBSIDIARY COMPANIES

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Kaiser Aluminum Corporation ("Kaiser" or the "Company"), through its wholly owned subsidiary, Kaiser Aluminum & Chemical Corporation ("KACC"), operates in two business segments: bauxite and alumina, and aluminum processing. Intracompany shipments and sales are excluded from the information set forth below. The following should be read in conjunction with the Company's consolidated financial statements and the notes thereto, contained elsewhere herein.

| (In millions of dollars, except shipments and prices) | Year Ended December 31, | | |
|-------------------------------------------------------|-------------------------|----------|----------|
| | 1995 | 1994 | 1993 |
| Shipments: (000 tons) (1) | | | |
| Alumina | 2,040.1 | 2,086.7 | 1,997.5 |
| Aluminum products: | | | |
| Primary | | | |
| aluminum | 271.7 | 224.0 | 242.5 |
| Fabricated aluminum products | | 368.2 | 399.0 |
| Total aluminum products | | 639.9 | 623.0 |
| | | ===== | ===== |
| Average realized sales price: | | | |
| Alumina (per ton) | \$ 208 | \$ 169 | \$ 169 |
| Primary aluminum (per pound) | .81 | .59 | .56 |
| Net sales: | | | |
| Bauxite and alumina: | | | |
| Alumina | \$ 424.8 | \$ 352.8 | \$ 338.2 |
| Other (2) (3) | 89.4 | 79.7 | 85.2 |
| | ----- | ----- | ----- |

| | | | |
|-------------------------------------------------------------------------------------------------------------------------------|-----------|------------|------------|
| Total bauxite and alumina | 514.2 | 432.5 | 423.4 |
| | ----- | ----- | ----- |
| Aluminum processing: | | | |
| Primary aluminum | 488.0 | 292.0 | 301.7 |
| Fabricated aluminum products | 1,218.6 | 1,043.0 | 981.4 |
| Other (3) | 17.0 | 14.0 | 12.6 |
| | ----- | ----- | ----- |
| Total aluminum processing | 1,723.6 | 1,349.0 | 1,295.7 |
| | ----- | ----- | ----- |
| Total net sales | \$2,237.8 | \$1,781.5 | \$1,719.1 |
| | ===== | ===== | ===== |
| Operating income (loss): | | | |
| Bauxite and alumina | \$ 54.0 | \$ 19.8 | \$ (4.5) |
| Aluminum processing | 238.9 | (8.4) | (46.3) |
| Corporate | (82.3) | (67.6) | (72.6) |
| | ----- | ----- | ----- |
| Total operating income (loss) | \$ 210.6 | \$ (56.2) | \$ (123.4) |
| | ===== | ===== | ===== |
| Income (loss) before extraordinary loss and cumulative effect of changes in accounting principles | \$ 60.3 | \$ (101.4) | \$ (123.1) |
| Extraordinary loss on early extinguishment of debt, net of tax benefit of \$2.9 and \$11.2 for 1994 and 1993, respectively | | (5.4) | (21.8) |
| Cumulative effect of changes in accounting principles, net of tax benefit of \$237.7 | | | (507.3) |
| | ----- | ----- | ----- |
| Net income (loss) | \$ 60.3 | \$ (106.8) | \$ (652.2) |
| | ===== | ===== | ===== |
| Capital expenditures | \$ 79.4 | \$ 70.0 | \$ 67.7 |
| | ===== | ===== | ===== |

- (1) All references to tons refer to metric tons of 2,204.6 pounds.
- (2) Includes net sales of bauxite.
- (3) Includes the portion of net sales attributable to minority interests in consolidated subsidiaries.

KAISER ALUMINUM CORPORATION AND SUBSIDIARY COMPANIES

MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

Results of Operations

- -----

The Company's operating results are sensitive to changes in prices of alumina, primary aluminum, and fabricated aluminum products, and also depend to a significant degree on the volume and mix of all products sold and on KACC's hedging strategies. See Note 9 of the Notes to Consolidated Financial Statements for an explanation of KACC's hedging strategies. The previous table provides selected operational and financial information on a consolidated basis with respect to the Company for the years ended December 31, 1995, 1994, and 1993. As an integrated aluminum producer, the Company uses a portion of its bauxite, alumina, and primary aluminum production for additional processing at certain of its facilities.

Net Sales

Bauxite and Alumina - Revenue from net sales to third parties for the bauxite and alumina segment was 19% higher in 1995 than in 1994 and 2% higher in 1994 than in 1993. Revenue from alumina increased 20% in 1995 from 1994, due to higher average realized prices partially offset by lower shipments. The remainder of the segment's sales revenues were from sales of bauxite and the portion of sales of alumina attributable to the minority interest in the Company's 65%-owned Alumina Partners

of Jamaica ("Alpart") alumina refinery in Jamaica.

Aluminum Processing - Revenue from net sales to third parties for the aluminum processing segment was 28% higher in 1995 than in 1994 and 4% higher in 1994 than in 1993. The bulk of the segment's sales represents Kaiser's primary aluminum and fabricated aluminum products, with the remainder representing the portion of sales of primary aluminum attributable to the minority interest in the Company's 90%-owned Volta Aluminium Company Limited ("Valco") aluminum smelter in Ghana. Revenue from primary aluminum increased 67% in 1995 from 1994, due primarily to higher average realized prices and higher shipments. In 1995, the Company's average realized price from sales of primary aluminum was approximately \$.81 per pound, compared to the average Midwest United States transaction price of approximately \$.86 per pound during the year. The higher shipments of primary aluminum were due to increased production at the Company's smelters in the Pacific Northwest and Valco, and reduced intracompany consumption of primary metal at the Company's fabricated products units. The increase in revenue for 1995 was partially offset by decreased shipments caused by the strike by the United Steelworkers of America ("USWA") discussed below. Revenue from primary aluminum decreased 3% in 1994 from 1993 as higher average realized prices were more than offset by lower shipments. Average realized prices in 1994 reflected the defensive hedging of primary aluminum prices in respect of 1994 shipments, which was initiated prior to then-recent improvements in metal prices. Shipments in 1994 reflected production curtailments at the Company's smelters in the Pacific Northwest and Valco. Shipments of primary aluminum to third parties were approximately 42% of total aluminum products shipments in 1995, compared with approximately 36% in 1994 and 39% in 1993. Revenue from fabricated aluminum products increased 17% in 1995 from 1994, due to higher average realized prices partially offset by lower shipments for most of these products. Revenue from fabricated aluminum products increased 6% in 1994 from 1993, principally due to increased shipments of most of these products.

Operating Income (Loss)

Improved operating results in 1995 were partially offset by expenses related to the Company's smelting joint venture in China, accelerated expenses on the Company's micromill technology, maintenance expenses as a result of an electrical lightning strike at the Company's Trentwood, Washington, facility, and a work slowdown at the Company's 49%-owned Kaiser Jamaica Bauxite Company prior to the signing of a new labor contract. The combined impact of these expenditures on the results for 1995 was approximately \$6.0 million in the aggregate (on a pre-tax basis). Operating results in 1995 were further impacted by (i) an eight-day strike at five major domestic locations by the USWA, (ii) a six-day strike by the National Workers Union at Alpart, and (iii) a four-day disruption of alumina production at Alpart caused by a boiler failure. The combined impact of these events on the results for 1995 was approximately \$17.0

KAISER ALUMINUM CORPORATION AND SUBSIDIARY COMPANIES

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

million in the aggregate (on a pre-tax basis) principally from lower production volume and other related costs. In 1993, the Company recorded a pre-tax charge of \$35.8 million related to restructuring charges and a pre-tax charge of \$19.4 million because of a reduction in the carrying value of its inventories caused principally by prevailing lower prices for alumina, primary aluminum, and fabricated aluminum products.

Bauxite and Alumina - This segment's operating income was \$54.0

million in 1995, compared with \$19.8 million in 1994 and a loss of \$4.5 million in 1993. The increase in operating income in 1995 compared with 1994 was principally due to higher revenue, partially offset by the effect of the strike and boiler failure. In 1994, compared with 1993, operating income was favorably affected by increased shipments and lower manufacturing costs.

Aluminum Processing - This segment's operating income was \$238.9 million in 1995, compared with losses of \$8.4 million in 1994 and \$46.3 million in 1993. Improvement in operating results in 1995 compared with 1994 was principally due to higher revenue, partially offset by the effect of the strike by the USWA. The decrease in operating loss in 1994 compared with 1993 was caused principally by the \$35.8 million restructuring charges, increased shipments of fabricated aluminum products, and higher average realized prices of primary aluminum, partially offset by lower shipments of primary aluminum.

Corporate - Corporate operating expenses of \$82.3 million, \$67.6 million, and \$72.6 million in 1995, 1994, and 1993, respectively, represented corporate general and administrative expenses that were not allocated to segments.

Net Income (Loss)

The Company reported net income of \$60.3 million or \$.69 per common and common equivalent share (\$.72 on a fully diluted basis) in 1995, compared with a net loss of \$106.8 million or \$2.18 per common and common equivalent share in 1994 and a net loss of \$652.2 million or \$11.47 per common and common equivalent share in 1993. The principal reason for the improvement in 1995 compared to 1994 was the improvement in operating results previously described, partially offset by other charges, principally related to the establishment of additional litigation reserves. The principal reasons for the reduced net loss in 1994 compared with 1993 were the reduction in the operating loss previously described and the cumulative effect of changes in accounting principles of \$507.3 million related to adoption of Statement of Financial Accounting Standards No. 106, 109, and 112 as of January 1, 1993. See Note 1 of the Notes to Consolidated Financial Statements.

Liquidity and Capital Resources

Capital Structure

On February 17, 1994, the Company and KACC entered into a credit agreement with BankAmerica Business Credit, Inc. and certain other lenders (as amended, the "1994 Credit Agreement"). The 1994 Credit Agreement consists of a \$325.0 million five-year secured, revolving line of credit, scheduled to mature in 1999. KACC is able to borrow under the facility by means of revolving credit advances and letters of credit (up to \$125.0 million) in an aggregate amount equal to the lesser of \$325.0 million or a borrowing base relating to eligible accounts receivable plus eligible inventory. As of February 29, 1996, \$174.9 million (of which \$72.4 million could have been used for letters of credit) was available to KACC under the 1994 Credit Agreement. The 1994 Credit Agreement is unconditionally guaranteed by the Company and by certain significant subsidiaries of KACC. The 1994 Credit Agreement requires KACC to maintain certain financial covenants and places restrictions on the Company's and KACC's ability to, among other things, incur debt and liens, make investments, pay dividends, undertake transactions with affiliates, make capital expenditures, and enter into unrelated lines of business. The 1994 Credit Agreement is secured by, among other things, (i) mortgages on KACC's major domestic plants (excluding the Company's Gramercy alumina plant); (ii) subject to certain exceptions, liens on the accounts receivable, inventory, equipment, domestic patents and trademarks,

KAISER ALUMINUM CORPORATION AND SUBSIDIARY COMPANIES

MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

and substantially all other personal property of KACC and certain of its subsidiaries; (iii) a pledge of all the stock of KACC owned by Kaiser; and (iv) pledges of all of the stock of a number of KACC's wholly owned domestic subsidiaries, pledges of a portion of the stock of certain foreign subsidiaries, and pledges of a portion of the stock of certain partially owned foreign affiliates. In 1993, Kaiser issued 19,382,950 of its \$.65 Depositary Shares (the "Depositary Shares"), each representing one-tenth of a share of Series A Mandatory Conversion Premium Dividend Preferred Stock (the "Series A Shares"). On September 19, 1995, the Company redeemed all 1,938,295 Series A Shares, which resulted in the simultaneous redemption of all Depositary Shares, in exchange for (i) 13,126,521 shares of the Company's common stock and (ii) \$2.8 million in cash comprised of (a) an amount equal to all accrued and unpaid dividends up to and including the day immediately prior to redemption date, and (b) cash in lieu of any fractional shares of common stock that would have otherwise been issuable.

In the first quarter of 1994, the Company consummated the public offering of 8,855,550 shares of its 8.255% PRIDES, Convertible Preferred Stock (the "PRIDES"). The net proceeds from the sale of the shares of PRIDES were approximately \$100.1 million. On February 17, 1994, KACC issued \$225.0 million of its 9-7/8% Senior Notes due 2002 (the "Senior Notes").

The obligations of KACC with respect to the Senior Notes and the 12-3/4% Notes (see Note 4 of the Notes to Consolidated Financial Statements) are guaranteed, jointly and severally, by certain subsidiaries of KACC. The indentures governing the Senior Notes and the 12-3/4% Notes restrict, among other things, KACC's ability to incur debt, undertake transactions with affiliates, and pay dividends.

Management believes that the Company's existing cash resources, together with cash flows from operations and borrowings under the 1994 Credit Agreement, will be sufficient to satisfy its working capital and capital expenditure requirements for the next year. With respect to long-term liquidity, management believes that operating cash flows, together with the ability to obtain both short and long-term financing, should provide sufficient funds to meet the Company's working capital and capital expenditure requirements.

On January 5, 1996, the Company announced that it filed a "shelf" registration statement with the Securities and Exchange Commission (the "SEC") covering up to 10 million shares of the Company's common stock that are owned by MAXXAM Inc.

On February 5, 1996, the Company announced that it filed with the SEC a preliminary proxy statement relating to a proposed recapitalization and a special meeting of stockholders to consider and vote upon the proposal. The proposed recapitalization would: (i) provide for two classes of common stock: Class A Common Shares, \$.01 par value, with one vote per share and a new lesser-voting class designated as Common Stock, \$.01 par value, with 1/10 vote per share; (ii) redesignate as Class A Common Shares the 100 million currently authorized shares of existing common stock and authorize an additional 250 million shares to be designated as Common Stock; and (iii) change each issued share of the Company's existing common stock, par value \$.01 per share, into (a) .33 of a Class A Common Share and (b) .67 of a share of Common Stock. The Company would pay cash in lieu of fractional shares. The Company anticipates that both the Class A Common Shares and the Common Stock will be approved for trading on the New York Stock Exchange. Upon the effective date of the recapitalization, approximately 23.6 million Class A Common Shares and 48.0 million shares of Common Stock would be issued and outstanding. The proportionate voting power of the holders of the PRIDES will increase immediately after the effectiveness of the recapitalization until such shares are redeemed or converted, which will occur on or before December 31, 1997. As of January 31, 1996, holders of the existing common stock and the PRIDES had 91.2% and 8.8%, respectively,

of the total voting power of all

KAISER ALUMINUM CORPORATION AND SUBSIDIARY COMPANIES

MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

stockholders. Immediately after the recapitalization, the voting power of such holders of the PRIDES will increase to 19.6% in the aggregate, with a corresponding reduction in the voting power of such holders of the existing common stock. At such time as the PRIDES are redeemed or converted, the relative voting power of such holders of the PRIDES will decrease and the relative voting power for both such holders of the PRIDES and the existing common stock will be approximately the same as it would have been had the recapitalization not occurred.

See Note 4 of the Notes to Consolidated Financial Statements.

Operating Activities

Cash provided by operations was \$118.7 million in 1995, compared with cash used for operations of \$22.1 million in 1994 and cash provided by operations of \$36.9 million in 1993. The improvement in cash flows from operations in 1995 compared with 1994 was primarily due to higher earnings and a refund of margin deposits of \$50.5 million under certain hedging contracts.

At December 31, 1995, the Company had working capital of \$331.7 million, compared with working capital of \$259.7 million at December 31, 1994. The increase in working capital was due primarily to an increase in Receivables and Inventories and a decrease in Other accrued liabilities, partially offset by a decrease in Prepaid expenses and other current assets (principally due to a refund of margin deposits related to hedging activities) and an increase in Accounts payable and Accrued salaries, wages, and related expense.

Postretirement benefits other than pensions are provided through contracts with various insurance carriers. The Company has not funded the liability for these benefits, which are expected to be paid out of cash generated by operations.

Investing Activities

The Company's capital expenditures of \$217.1 million (of which \$25.2 million was funded by the Company's minority partners in certain foreign joint ventures) during the three years ended December 31, 1995, were made primarily to improve production efficiency, reduce operating costs, expand capacity at existing facilities, and construct new facilities. Total consolidated capital expenditures were \$79.4 million in 1995, compared with \$70.0 million in 1994 and \$67.7 million in 1993 (of which \$8.3, \$7.5, and \$9.4 million were funded by the minority partners in certain foreign joint ventures in 1995, 1994, and 1993, respectively). Total consolidated capital expenditures (of which approximately 10% is expected to be funded by the minority partners in certain foreign joint ventures) are expected to be between \$123.0 and \$143.0 million per year in the years 1996-1998, subject to necessary approvals, if required, from the lenders under the 1994 Credit Agreement.

The Company has developed a unique micromill for the production of can sheet from molten metal based on a proprietary thin-strip, high-speed, continuous-belt casting technique linked directly to hot rolling and cold rolling mills. The first micromill will be constructed in Nevada in 1996 as a demonstration production facility. KACC currently intends to finance the cost of the construction of the Nevada micromill, estimated to be \$45.0 million, from general corporate funds, including

possible borrowings under the 1994 Credit Agreement, although KACC is in discussions with third parties which might provide some or all of such funding.

In 1995, Kaiser Yellow River Investment Limited ("KYRIL") was formed to participate in the privatization, modernization, and operation of aluminum smelting facilities in the People's Republic of China (the "PRC"). KYRIL has entered into a Joint Venture Agreement and related agreements with the Lanzhou Aluminum Smelters of the China National Nonferrous Metals Industry Corporation relating to the formation and operation of Yellow River Aluminum Industry Company Limited, a Sino-foreign joint equity enterprise organized under the laws of the PRC

KAISER ALUMINUM CORPORATION AND SUBSIDIARY COMPANIES

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

(the "Joint Venture"). KYRIL contributed \$9.0 million as a contribution to the capital of the Joint Venture in July 1995. The parties to the Joint Venture are currently engaged in discussion concerning the amount, timing, and other conditions relating to KYRIL's additional contributions to the Joint Venture. Governmental approval in the PRC will be necessary in order to implement certain arrangements agreed to by the parties, and there can be no assurance such approvals will be obtained.

Financing Activities

The declaration and payment of dividends by the Company and KACC on shares of their common stock are subject to certain covenants contained in the 1994 Credit Agreement and, in the case of KACC, the Senior Note Indenture and the 12-3/4% Note Indenture. The 1994 Credit Agreement does not permit the Company or KACC to pay any dividends on their common stock. The declaration and payment of dividends by the Company on the PRIDES is expressly permitted by the terms of the 1994 Credit Agreement to the extent the Company receives payments on certain intercompany notes or certain other permitted distributions from KACC.

Environmental Contingencies

The Company and KACC are subject to a number of environmental laws, to fines or penalties assessed for alleged breaches of the environmental laws, and to claims and litigation based upon such laws. KACC currently is subject to a number of lawsuits under the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended by the Superfund Amendments Reauthorization Act of 1986 ("CERCLA"), and, along with certain other entities, has been named as a potentially responsible party for remedial costs at certain third-party sites listed on the National Priorities List under CERCLA.

Based on the Company's evaluation of these and other environmental matters, the Company has established environmental accruals, primarily related to potential solid waste disposal and soil and groundwater remediation matters. At December 31, 1995, the balance of such accruals, which are primarily included in Long-term liabilities, was \$38.9 million. These environmental accruals represent the Company's estimate of costs reasonably expected to be incurred based on presently enacted laws and regulations, currently available facts, existing technology, and the Company's assessment of the likely remediation action to be taken. The Company expects that these remediation actions will be taken over the next several years and estimates that annual expenditures to be charged to these environmental accruals will be approximately \$3.0 to \$9.0 million for

the years 1996 through 2000 and an aggregate of approximately \$10.0 million thereafter.

As additional facts are developed and definitive remediation plans and necessary regulatory approvals for implementation of remediation are established or alternative technologies are developed, changes in these and other factors may result in actual costs exceeding the current environmental accruals. The Company believes that it is reasonably possible that costs associated with these environmental matters may exceed current accruals by amounts that could range, in the aggregate, up to an estimated \$23.0 million and that the factors upon which a substantial portion of this estimate is based are expected to be resolved over the next twelve months. While uncertainties are inherent in the final outcome of these environmental matters, and it is presently impossible to determine the actual costs that ultimately may be incurred, management currently believes that the resolution of such uncertainties should not have a material adverse effect on the Company's consolidated financial position, results of operations, or liquidity. See Note 8 of the Notes to Consolidated Financial Statements for further description of these contingencies.

Asbestos Contingencies

KACC is a defendant in a number of lawsuits, some of which involve claims of multiple persons, in which the plaintiffs allege that certain of their injuries were caused by, among other things, exposure to asbestos during, and as a result of, their employment or association with KACC or exposure to products containing asbestos produced or sold by KACC.

KAISER ALUMINUM CORPORATION AND SUBSIDIARY COMPANIES

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

The lawsuits generally relate to products KACC has not manufactured for at least 15 years. At December 31, 1995, the number of such claims pending was approximately 59,700, as compared with 25,200 at December 31, 1994. In 1995, approximately 41,700 of such claims were received and 7,200 settled or dismissed. KACC has been advised by its regional counsel that, although there can be no assurance, the recent increase in pending claims may be attributable in part to tort reform legislation in Texas which was passed by the legislature in March 1995 and which became effective on September 1, 1995. The legislation, among other things, is designed to restrict, beginning September 1, 1995, the filing of cases in Texas that do not have a sufficient nexus to that jurisdiction, and to impose, generally as of September 1, 1996, limitations relating to joint and several liability in tort cases. A substantial portion of the asbestos-related claims that were filed and served on KACC between June 30, 1995, and November 30, 1995, were filed in Texas prior to September 1, 1995.

Based on past experience and reasonably anticipated future activity, the Company has established an accrual for estimated asbestos-related costs for claims filed and estimated to be filed and settled through 2008. There are inherent uncertainties involved in estimating asbestos-related costs, and the Company's actual costs could exceed these estimates. The Company's accrual was calculated based on the current and anticipated number of asbestos-related claims, the prior timing and amounts of asbestos-related payments, and the advice of Wharton, Levin, Ehrmantraut, Klein & Nash, P.A. with respect to the current state of the law related to asbestos claims. Accordingly, an asbestos-related cost accrual of \$160.1 million, before consideration of insurance recoveries, is included primarily in Long-term liabilities at December 31, 1995. The Company estimates that annual future cash payments in connection with such litigation will be approximately \$13.0 to \$20.0 million for each of the years 1996

through 2000, and an aggregate of approximately \$78.0 million thereafter through 2008. While the Company does not presently believe there is a reasonable basis for estimating such costs beyond 2008 and, accordingly, no accrual has been recorded for such costs which may be incurred beyond 2008, there is a reasonable possibility that such costs may continue beyond 2008, and such costs may be substantial.

The Company believes that KACC has insurance coverage available to recover a substantial portion of its asbestos-related costs. Claims for recovery from some of KACC's insurance carriers are currently subject to pending litigation and other carriers have raised certain defenses, which have resulted in delays in recovering costs from the insurance carriers. The timing and amount of ultimate recoveries from these insurance carriers are dependent upon the resolution of these disputes. The Company believes, based on prior insurance-related recoveries in respect of asbestos-related claims, existing insurance policies, and the advice of Thelen, Marrin, Johnson & Bridges with respect to applicable insurance coverage law relating to the terms and conditions of those policies, that substantial recoveries from the insurance carriers are probable. Accordingly, an estimated aggregate insurance recovery of \$137.9 million, determined on the same basis as the asbestos-related cost accrual, is recorded primarily in Other assets at December 31, 1995.

While uncertainties are inherent in the final outcome of these asbestos matters and it is presently impossible to determine the actual costs that ultimately may be incurred and insurance recoveries that will be received, management currently believes that, based on the factors discussed in the preceding paragraphs, the resolution of asbestos-related uncertainties and the incurrence of asbestos-related costs net of related insurance recoveries should not have a material adverse effect on the Company's consolidated financial position, results of operations, or liquidity. See Note 8 of the Notes to Consolidated Financial Statements for further description of this contingency.

KAISER ALUMINUM CORPORATION AND SUBSIDIARY COMPANIES

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

Trends - - - - -

Merger with Alumax

On February 22, 1996, the Company announced that it had proposed to acquire all of the outstanding shares of Alumax Inc. and made public a letter urging the Board of Directors of Alumax to seriously consider the proposal. The Company's proposal to Alumax is for a combination of cash and equity securities of the Company at a combined value of \$40 to \$45 per common share, of which \$30 would be paid in cash and the balance in Kaiser shares. The proposal was first made to Alumax on February 8, 1996. Alumax subsequently rejected the proposal. On March 2, 1996, the Company announced that it decided to withdraw its proposal.

Sensitivity to Prices and Hedging Programs

KACC enters into primary aluminum hedging transactions in the normal course of business. The prices realized by KACC under certain sales contracts for alumina, primary aluminum, and fabricated aluminum products, as well as the costs incurred by KACC for certain items, such as aluminum scrap, rolling ingot, power, and bauxite, fluctuate with the market price of primary aluminum, together resulting in a

"net exposure" of earnings. The primary aluminum hedging transactions are designed to mitigate the net exposure of earnings to declines in the market price of primary aluminum, while retaining the ability to participate in favorable pricing environments that may materialize. KACC has employed strategies which include forward sales of primary aluminum at fixed prices and the purchase or sale of options for primary aluminum. In respect of its 1996 anticipated net exposure, at December 31, 1995, KACC had purchased approximately 53,300 tons of primary aluminum at fixed prices as a partial hedge against approximately 161,100 tons of fabricated aluminum products sold to customers at fixed or capped prices and had sold forward 15,750 tons of primary aluminum at fixed prices.

In addition, as of December 31, 1995, KACC had sold approximately 75% and 45% of the alumina available to it in excess of its projected internal smelting requirements for 1996 and 1997, respectively. Approximately 56% of such alumina sold for 1996 and all of such alumina sold for 1997 has been sold at prices linked to the future prices of primary aluminum as a percentage of the price of primary aluminum ("Variable Price Contracts"), and approximately 44% of such alumina sold for 1996 has been sold at fixed prices ("Fixed Price Contracts"). The average realized prices of alumina sold under Variable Price Contracts will depend on future prices of primary aluminum, and the average realized prices of alumina sold under Fixed Price Contracts will substantially exceed the Company's manufacturing cost of alumina.

KACC also enters into hedging transactions in the normal course of business that are designed to reduce its exposure to fluctuations in foreign exchange rates. At December 31, 1995, KACC had net forward foreign exchange contracts totaling approximately \$102.8 million for the purchase of 142.4 million Australian dollars through April 30, 1997.

KACC has established margin accounts with its counterparties related to forward aluminum sales and option contracts. KACC is entitled to receive advances from counterparties related to unrealized gains and, in turn, is required to make margin deposits with counterparties to cover unrealized losses related to these contracts. At December 31, 1995, KACC had nil, compared with \$50.5 million at December 31, 1994, on deposit with counterparties in respect of such contracts. These amounts are recorded in Prepaid expenses and other current assets.

Since December 31, 1995, KACC has entered into:

- . Additional hedge positions in respect of its anticipated 1996, 1997, and 1998 production. As of February 29, 1996, KACC had sold forward an additional 19,500 metric tons of primary aluminum at fixed prices, had

KAISER ALUMINUM CORPORATION AND SUBSIDIARY COMPANIES

MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

purchased 20,150 metric tons of primary aluminum under forward purchase contracts at fixed prices, and had purchased put options to establish a minimum price for 45,000 metric tons of primary aluminum.

- . Additional forward foreign exchange contracts totaling approximately \$12.8 million for the purchase of 18.0 million Australian dollars from March 1996 through December 1997 in

respect of its commitments for 1996 and 1997 expenditures denominated in Australian dollars.

At February 29, 1996, the net unrealized gain on KACC's position in aluminum forward sales and option contracts, based on an average price of \$1,747 per metric ton (\$.79 per pound) of primary aluminum, and forward foreign exchange contracts was \$13.3 million.

Income Tax Matters

The Company's net deferred income tax assets as of December 31, 1995, were \$291.8 million, net of valuation allowances of \$128.5 million. Approximately \$97.7 million of these net deferred income tax assets relate to the benefit of loss and credit carryforwards, net of valuation allowances. The Company believes a long-term view of profitability is appropriate and has concluded that this net deferred income tax asset will more likely than not be realized despite the operating losses incurred in recent years. See Note 5 of the Notes to Consolidated Financial Statements for a discussion of these and other income tax matters.

Recent Accounting Pronouncements

In March 1995, the Financial Accounting Standards Board (the "FASB") issued Statement of Financial Accounting Standards No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of" ("SFAS 121"). SFAS 121 requires that long-lived assets and certain identifiable intangibles to be held and used by an entity be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. SFAS 121 requires that long-lived assets and certain identifiable intangibles to be disposed of be reported at the lower of carrying amount or fair value less cost to sell. The Company is required to adopt SFAS 121 no later than January 1, 1996. The Company does not expect that the adoption of SFAS 121 will have a material impact on the Company's consolidated financial statements.

In October 1995, the FASB issued Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" ("SFAS 123"). SFAS 123 establishes financial accounting and reporting standards for stock-based employee compensation plans, and provides for alternative methods for an employer to recognize stock-based compensation costs. Under the first method, an employer may continue to account for compensation costs for stock, stock options, and other equity instruments issued to employees, as it has historically, using the "intrinsic value based method" (as described in SFAS 123), and such compensation costs would be the excess, if any, of the quoted market price of the stock subject to an option at the grant date or other measurement date over the amount an employee must pay to acquire the stock. The intrinsic value based method generally would not result in the recognition of compensation costs upon the grant of stock options. Under the second method, an employer may adopt the "fair value based method" (as described in SFAS 123). Under the fair value based method, such compensation costs would be valued using an option-pricing model, and such amount would be charged to expense over the option's vesting period. Employers which elect to continue to account for stock-based compensation under the intrinsic value based method will be required by SFAS 123 to disclose in the notes to their financial statements the amount of net income and the earnings per share which would have been reported had the employer elected to use the fair value based method. The Company has elected to continue to account for stock-based compensation under the intrinsic value based method, and will comply with the disclosure requirement of SFAS 123 as of January 1, 1996.

KAISER ALUMINUM CORPORATION AND SUBSIDIARY COMPANIES

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Stockholders and the Board of Directors of Kaiser Aluminum Corporation:

We have audited the accompanying consolidated balance sheets of Kaiser Aluminum Corporation (a Delaware corporation) and subsidiaries as of December 31, 1995 and 1994, and the related statements of consolidated income and cash flows for each of the three years in the period ended December 31, 1995. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Kaiser Aluminum Corporation and subsidiaries as of December 31, 1995 and 1994, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1995, in conformity with generally accepted accounting principles.

Houston, Texas
February 16, 1996

KAISER ALUMINUM CORPORATION AND SUBSIDIARY COMPANIES

CONSOLIDATED BALANCE SHEETS

| (In millions of dollars, except share amounts) | December 31, | |
|-----------------------------------------------------------------------------------|--------------|---------|
| | 1995 | 1994 |
| ----- | | |
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 21.9 | \$ 17.6 |
| Receivables: | | |
| Trade, less allowance for doubtful receivables of \$5.0 in 1995 and \$4.2 in 1994 | 222.9 | 150.7 |
| Other | 85.7 | 48.5 |
| Inventories | 525.7 | 468.0 |
| Prepaid expenses and other current assets | 76.6 | 158.0 |
| | ----- | ----- |
| Total current assets | 932.8 | 842.8 |
| Investments in and advances to unconsolidated affiliates | 178.2 | 169.7 |
| Property, plant, and equipment - net | 1,109.6 | 1,133.2 |
| Deferred income taxes | 269.1 | 271.2 |
| Other assets | 323.5 | 281.2 |

| | | |
|-------------------------------------------------------------------------------------------------------------------------------------|-----------|-----------|
| Total | \$2,813.2 | \$2,698.1 |
| | ===== | ===== |
| Liabilities and Stockholders' Equity | | |
| Current liabilities: | | |
| Accounts payable | \$ 184.5 | \$ 152.1 |
| Accrued interest | 32.0 | 32.6 |
| Accrued salaries, wages, and related expenses | 105.3 | 77.7 |
| Accrued postretirement medical benefit obligation - current portion | 46.8 | 47.0 |
| Other accrued liabilities | 129.4 | 176.9 |
| Payable to affiliates | 94.2 | 85.3 |
| Long-term debt - current portion | 8.9 | 11.5 |
| | ----- | ----- |
| Total current liabilities | 601.1 | 583.1 |
| Long-term liabilities | 548.5 | 495.5 |
| Accrued postretirement medical benefit obligation | 734.0 | 734.9 |
| Long-term debt | 749.2 | 751.1 |
| Minority interests | 122.7 | 116.2 |
| Stockholders' equity: | | |
| Preferred stock, par value \$.05, authorized 20,000,000 shares: | | |
| Series A Convertible, stated value \$.10, issued and outstanding, nil and 1,938,295 in 1995 and 1994 | | .2 |
| PRIDES Convertible, par value \$.05, issued and outstanding, 8,673,850 and 8,855,550 in 1995 and 1994 | .4 | .4 |
| Common stock, par value \$.01, authorized 100,000,000 shares; issued and outstanding, 71,638,514 and 58,205,083 in 1995 and 1994 | .7 | .6 |
| Additional capital | 530.3 | 527.8 |
| Accumulated deficit | (459.9) | (502.6) |
| Additional minimum pension liability | (13.8) | (9.1) |
| | ----- | ----- |
| Total stockholders' equity | 57.7 | 17.3 |
| | ----- | ----- |
| Total | \$2,813.2 | \$2,698.1 |
| | ===== | ===== |

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

KAISER ALUMINUM CORPORATION AND SUBSIDIARY COMPANIES

STATEMENTS OF CONSOLIDATED INCOME (LOSS)

| (In millions of dollars, except share amounts) | Year Ended December 31, | | |
|-----------------------------------------------------------------------------------------------------------------------------------------|-------------------------|-----------|-----------|
| | 1995 | 1994 | 1993 |
| | ----- | ----- | ----- |
| Net sales | \$2,237.8 | \$1,781.5 | \$1,719.1 |
| | ----- | ----- | ----- |
| Costs and expenses: | | | |
| Cost of products sold | 1,798.4 | 1,625.5 | 1,587.7 |
| Depreciation | 94.3 | 95.4 | 97.1 |
| Selling, administrative, research and development, and general | 134.5 | 116.8 | 121.9 |
| Restructuring of operations | | | 35.8 |
| | ----- | ----- | ----- |
| Total costs and expenses | 2,027.2 | 1,837.7 | 1,842.5 |
| | ----- | ----- | ----- |
| Operating income (loss): | 210.6 | (56.2) | (123.4) |
| Other expense: | | | |
| Interest expense | (93.9) | (88.6) | (84.2) |
| Other - net | (14.1) | (7.3) | (.9) |
| | ----- | ----- | ----- |
| Income (loss) before income taxes, minority interests, extraordinary loss, and cumulative effect of changes in accounting principles | 102.6 | (152.1) | (208.5) |
| (Provision) credit for income taxes | (37.2) | 53.8 | 86.9 |

| | | | |
|----------------------------------------------------------------------------------------------------------------------------|---------|------------|------------|
| Minority interests | (5.1) | (3.1) | (1.5) |
| | ----- | ----- | ----- |
| Income (loss) before extraordinary loss and cumulative effect of changes in accounting principles | 60.3 | (101.4) | (123.1) |
| Extraordinary loss on early extinguishment of debt, net of tax benefit of \$2.9 and \$11.2 for 1994 and 1993, respectively | | (5.4) | (21.8) |
| Cumulative effect of changes in accounting principles, net of tax benefit of \$237.7 | | | (507.3) |
| | ----- | ----- | ----- |
| Net income (loss) | 60.3 | (106.8) | (652.2) |
| Dividends on preferred stock | (17.6) | (20.1) | (6.3) |
| | ----- | ----- | ----- |
| Net income (loss) available to common shareholders | \$ 42.7 | \$ (126.9) | \$ (658.5) |
| | ===== | ===== | ===== |
| Earnings (loss) per common and common equivalent share: | | | |
| Primary: | | | |
| Income (loss) before extraordinary loss and cumulative effect of changes in accounting principles | \$.69 | \$ (2.09) | \$ (2.25) |
| Extraordinary loss | | (.09) | (.38) |
| Cumulative effect of changes in accounting principles | | | (8.84) |
| | ----- | ----- | ----- |
| Net income (loss) | \$.69 | \$ (2.18) | \$ (11.47) |
| | ===== | ===== | ===== |
| Fully diluted | \$.72 | | |
| | ===== | | |
| Weighted average common and common equivalent shares outstanding (000): | | | |
| Primary | 62,264 | 58,139 | 57,423 |
| | ===== | ===== | ===== |
| Fully diluted | 71,809 | | |
| | ===== | | |

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

KAISER ALUMINUM CORPORATION AND SUBSIDIARY COMPANIES

STATEMENTS OF CONSOLIDATED CASH FLOWS

| (In millions of dollars) | Year Ended December 31, | | |
|-----------------------------------------------------------------------------------------------------|-------------------------|------------|------------|
| | 1995 | 1994 | 1993 |
| | ----- | ----- | ----- |
| Cash flows from operating activities: | | | |
| Net income (loss) | \$ 60.3 | \$ (106.8) | \$ (652.2) |
| Adjustments to reconcile net income (loss) to net cash provided by (used for) operating activities: | | | |
| Depreciation | 94.3 | 95.4 | 97.1 |
| Amortization of excess investment over equity in unconsolidated affiliates | 11.4 | 11.6 | 11.9 |
| Amortization of deferred financing costs and discount on long-term debt | 5.4 | 6.2 | 11.2 |
| Equity in (income) losses of unconsolidated affiliates | (19.2) | 1.9 | 3.3 |
| Restructuring of operations | | | 35.8 |
| Minority interests | 5.1 | 3.1 | 1.5 |
| Extraordinary loss on early extinguishment of debt - net | | 5.4 | 21.8 |
| Cumulative effect of changes in accounting principles - net | | | 507.3 |
| (Increase) decrease in receivables | (109.7) | 36.4 | (6.1) |
| (Increase) decrease in inventories | (57.7) | (41.1) | 13.0 |
| Decrease (increase) in prepaid expenses and other assets | 82.9 | (60.6) | (5.2) |
| Increase (decrease) in accounts payable | 32.4 | 25.8 | (10.3) |
| (Decrease) increase in accrued interest | (.6) | 9.3 | 19.2 |
| Increase in payable to affiliates and accrued liabilities | 10.6 | 50.8 | 76.9 |
| Decrease in accrued and deferred income taxes | (7.4) | (68.8) | (96.4) |
| Other | 10.9 | 9.3 | 8.1 |
| | ----- | ----- | ----- |
| Net cash provided by (used for) operating activities | 118.7 | (22.1) | 36.9 |
| | ----- | ----- | ----- |
| Cash flows from investing activities: | | | |
| Net proceeds from disposition of property and investments | 8.6 | 4.1 | 13.1 |
| Capital expenditures | (79.4) | (70.0) | (67.7) |
| Investments in joint ventures | (9.0) | | |
| | ----- | ----- | ----- |
| Net cash used for investing activities | (79.8) | (65.9) | (54.6) |
| | ----- | ----- | ----- |

| | | | |
|-----------------------------------------------------------------------|---------|---------|-----------|
| Cash flows from financing activities: | | | |
| Repayments of long-term debt, including revolving credit | (537.7) | (345.1) | (1,134.5) |
| Borrowings of long-term debt, including revolving credit | 532.3 | 378.9 | 1,068.1 |
| Borrowings from MAXXAM Group Inc. (see supplemental disclosure below) | | | 15.0 |
| Tender premiums and other costs of early extinguishment of debt | | | (27.1) |
| Net short-term debt repayments | | (.5) | (4.3) |
| Incurrence of financing costs | (.8) | (19.2) | (12.7) |
| Dividends paid | (20.8) | (14.8) | (6.3) |
| Capital stock issued | 1.2 | 100.1 | 119.3 |
| Redemption of minority interests' preference stock | (8.8) | (8.5) | (4.2) |
| | ----- | ----- | ----- |
| Net cash (used for) provided by financing activities | (34.6) | 90.9 | 13.3 |
| | ----- | ----- | ----- |
| Net increase (decrease) in cash and cash equivalents during the year | 4.3 | 2.9 | (4.4) |
| Cash and cash equivalents at beginning of year | 17.6 | 14.7 | 19.1 |
| | ----- | ----- | ----- |
| Cash and cash equivalents at end of year | \$ 21.9 | \$ 17.6 | \$ 14.7 |
| | ===== | ===== | ===== |
| Supplemental disclosure of cash flow information: | | | |
| Interest paid, net of capitalized interest | \$ 88.8 | \$ 73.1 | \$ 53.7 |
| Income taxes paid | 35.7 | 16.0 | 13.5 |
| Tax allocation payments from MAXXAM Inc. | | (3.9) | |
| Supplemental disclosure of non-cash financing activities: | | | |
| Exchange of the borrowings from MAXXAM Group Inc. for capital stock | | | \$ 15.0 |

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

KAISER ALUMINUM CORPORATION AND SUBSIDIARY COMPANIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(In millions of dollars, except share amounts)

1. Summary of Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements include the statements of Kaiser Aluminum Corporation ("Kaiser" or the "Company") and its majority-owned subsidiaries. The Company is a direct subsidiary of MAXXAM Inc. ("MAXXAM") and conducts its operations through its wholly owned subsidiary, Kaiser Aluminum & Chemical Corporation ("KACC"). KACC operates in all principal aspects of the aluminum industry - the mining of bauxite (the major aluminum-bearing ore), the refining of bauxite into alumina (the intermediate material), the production of primary aluminum, and the manufacture of fabricated and semi-fabricated aluminum products. Kaiser's production levels of alumina and primary aluminum exceed its internal processing needs, which allows it to be a major seller of alumina and primary aluminum to domestic and international third parties (see Note 10).

The preparation of financial statements in accordance with generally accepted accounting principles requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities known to exist as of the date the financial statements are published, and the reported amount of revenues and expenses during the reporting period. Uncertainties, with respect to such estimates and assumptions, are inherent in the preparation of the Company's consolidated financial statements; accordingly, it is possible that the actual results could differ from these estimates and assumptions, which could have a material effect on the reported amounts of the Company's consolidated financial position and results of operation.

Investments in 50%-or-less-owned entities are accounted for primarily by the equity method. Intercompany balances and transactions are eliminated. Certain reclassifications of prior-year information were made to conform to the current presentation.

Changes in Accounting Principles

The Company adopted Statement of Financial Accounting Standards No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions" ("SFAS 106"), and Statement of Financial Accounting Standards No. 112, "Employers' Accounting for Postemployment Benefits" ("SFAS 112"), as of January 1, 1993. The costs of postretirement benefits other than pensions and postemployment benefits are now accrued over the period employees provide services to the date of their full eligibility for such benefits. Previously, such costs were expensed as actual claims were incurred. The cumulative effect of the changes in accounting principles for the adoption of SFAS 106 and SFAS 112 were recorded as charges to results of operations of \$497.7 and \$7.3, net of related income taxes of \$234.2 and \$3.5, respectively. These deferred income tax benefits were recorded at the federal statutory rate in effect on the date the accounting standards were adopted, before giving effect to certain valuation allowances. The new accounting standards had no effect on the Company's cash outlays for postretirement or postemployment benefits, nor did these one-time charges affect the Company's compliance with its existing debt covenants. The Company reserves the right, subject to applicable collective bargaining agreements and applicable legal requirements, to amend or terminate these benefits.

The Company adopted Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes" ("SFAS 109"), as of January 1, 1993. The adoption of SFAS 109 changed the Company's method of accounting for income taxes to an asset and liability approach from the deferral method prescribed by Accounting Principles Board Opinion No. 11, "Accounting for Income Taxes". The asset and liability approach requires the recognition of deferred income tax assets and liabilities for the expected future tax consequences of events that have been recognized in the Company's financial statements or tax returns. Under this method, deferred income tax assets and liabilities are determined based on the temporary differences between the financial statement and tax bases of assets and liabilities using enacted tax rates. The

KAISER ALUMINUM CORPORATION AND SUBSIDIARY COMPANIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(In millions of dollars, except share amounts) (continued)

cumulative effect of the change in accounting principle reduced the Company's results of operations by \$2.3. The adoption of SFAS 109 required the Company to restate certain assets and liabilities to their pre-tax amounts from their net-of-tax amounts originally recorded in connection with the acquisition by MAXXAM in October 1988. As a result of restating these assets and liabilities, the loss before income taxes, minority interests, extraordinary loss, and cumulative effect of changes in accounting principles for the year ended December 31, 1993, was increased by \$9.3.

Cash and Cash Equivalents

The Company considers only those short-term, highly liquid investments with original maturities of 90 days or less to be cash equivalents.

Inventories

Substantially all product inventories are stated at last-in, first-out ("LIFO") cost, not in excess of market value. Replacement cost is not in excess of LIFO cost. Other inventories, principally operating supplies and repair and maintenance parts, are stated at the lower of average cost or market. Inventory costs consist of material, labor, and manufacturing overhead, including depreciation. Inventories

consist of the following:

| | December 31, | |
|-----------------------------------------------------|--------------|---------|
| | 1995 | 1994 |
| Finished fabricated products | \$ 91.5 | \$ 49.4 |
| Primary aluminum and work in process | 195.9 | 203.1 |
| Bauxite and alumina | 119.6 | 102.3 |
| Operating supplies and repair and maintenance parts | 118.7 | 113.2 |
| | ----- | ----- |
| | \$525.7 | \$468.0 |
| | ===== | ===== |

Depreciation

Depreciation is computed principally by the straight-line method at rates based on the estimated useful lives of the various classes of assets. The principal estimated useful lives by class of assets are:

| | |
|-------------------------|----------------|
| Land improvements | 8 to 25 years |
| Buildings | 15 to 45 years |
| Machinery and equipment | 10 to 22 years |

Stock-Based Compensation

The Company applies Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations in accounting for a stock-based compensation plan. Accordingly, no compensation cost has been recognized for this plan (see Note 6).

Other Expense

Other expense in 1995, 1994, and 1993 includes \$17.8, \$16.5, and \$17.9 of pre-tax charges related principally to establishing additional: (i) litigation reserves for asbestos claims and (ii) environmental reserves for potential soil and groundwater remediation matters, each pertaining to operations which were discontinued prior to the acquisition of the Company by MAXXAM in 1988.

Deferred Financing Costs

Costs incurred to obtain debt financing are deferred and amortized over the estimated term of the related borrowing. Amortization of deferred financing costs of \$5.3, \$6.0, and \$11.2 for the years ended December 31, 1995, 1994, and 1993, respectively, are included in interest expense.

KAISER ALUMINUM CORPORATION AND SUBSIDIARY COMPANIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
(In millions of dollars, except share amounts)

Foreign Currency

The Company uses the United States dollar as the functional currency for its foreign operations.

Derivative Financial Instruments

Gains and losses arising from the use of derivative financial instruments are reflected in the Company's operating results concurrently with the consummation of the underlying hedged transactions. Deferred gains or losses as of December 31, 1995, are included in Prepaid expenses and other current assets and Other accrued liabilities. The Company does not hold or issue derivative financial instruments for trading purposes (see Note 9).

Fair Value of Financial Instruments

The following table presents the estimated fair value of the Company's financial instruments, together with the carrying amounts of the related assets or liabilities. Unless otherwise noted, the carrying amount of all financial instruments is a reasonable estimate of fair value.

| | December 31, 1995 | | December 31, 1994 | |
|----------------------------|-------------------|----------------------|-------------------|----------------------|
| | Carrying Amount | Estimated Fair Value | Carrying Amount | Estimated Fair Value |
| Debt | \$758.1 | \$806.3 | \$762.6 | \$747.6 |
| Foreign currency contracts | | 1.9 | | 3.5 |

The following methods and assumptions were used to estimate the fair value of each class of financial instruments:

Debt - The quoted market prices were used for the Senior Notes and 12-3/4% Notes (see Note 4). The fair value of all other debt is based on discounting the future cash flows using the current rate for debt of similar maturities and terms.

Foreign Currency Contracts - The fair value generally reflects the estimated amounts that the Company would receive to enter into similar contracts at the reporting date, thereby taking into account unrealized gains or losses on open contracts (see Note 9).

Earnings (Loss) per Common and Common Equivalent Share

Primary earnings (loss) per common and common equivalent share are computed by dividing net income (loss) available to common shareholders by the weighted average number of common and common equivalent shares outstanding during the period. Fully diluted earnings per common and common equivalent share are computed as if the Series A Shares and 181,700 shares of PRIDES (the "Converted PRIDES") had been converted to common shares at the beginning of the period. Accordingly, for purposes of the fully diluted calculations, the dividends attributable to the Series A shares and the Converted PRIDES (\$9.2 for the year ended December 31, 1995) have not been deducted from net income, and the weighted average number of common and common equivalent shares outstanding includes the shares issued upon conversion of the Series A Shares and the Converted PRIDES as if they had been outstanding for the entire period. As a result of the redemption of the Series A Shares and conversion of the Converted PRIDES during the 1995 period, fully diluted earnings per share are presented for such period, even though the result is antidilutive. For the years ended December 31, 1994 and 1993, common equivalent shares attributable to the preferred stock and non-qualified stock options were excluded from the calculation of weighted average shares because they were antidilutive.

2. Investments In and Advances To Unconsolidated Affiliates

Summary combined financial information is provided below for unconsolidated aluminum investments, most of which supply and process raw materials. The investees are Queensland Alumina Limited ("QAL") (28.3% owned), Anglesey

KAISER ALUMINUM CORPORATION AND SUBSIDIARY COMPANIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
(In millions of dollars, except share amounts)

Aluminium Limited ("Anglesey") (49.0% owned), and Kaiser Jamaica Bauxite Company (49.0% owned). The equity in earnings (losses) before income taxes of such operations is treated as a reduction (increase) in cost of products sold. At December 31, 1995 and 1994, KACC's net receivables from these affiliates were not material.

Summary of Combined Financial Position

| | December 31, | |
|--------------------------------------------|--------------|---------|
| | 1995 | 1994 |
| Current assets | \$429.0 | \$342.3 |
| Property, plant, and equipment - net | 330.8 | 349.4 |
| Other assets | 39.3 | 42.4 |
| | ----- | ----- |
| Total assets | \$799.1 | \$734.1 |
| | ===== | ===== |
| Current liabilities | \$125.4 | \$122.4 |
| Long-term debt | 331.8 | 307.6 |
| Other liabilities | 35.6 | 31.0 |
| Stockholders' equity | 306.3 | 273.1 |
| | ----- | ----- |
| Total liabilities and stockholders' equity | \$799.1 | \$734.1 |
| | ===== | ===== |

Summary of Combined Operations

| | Year Ended December 31, | | |
|-------------------------------------|-------------------------|-----------|-----------|
| | 1995 | 1994 | 1993 |
| | ----- | ----- | ----- |
| Net sales | \$ 685.9 | \$ 489.8 | \$ 510.3 |
| Costs and expenses | (618.7) | (494.8) | (527.2) |
| (Provision) credit for income taxes | (18.7) | (6.3) | 1.9 |
| | ----- | ----- | ----- |
| Net income (loss) | \$ 48.5 | \$ (11.3) | \$ (15.0) |
| | ===== | ===== | ===== |
| Company's equity in income (loss) | \$ 19.2 | \$ (1.9) | \$ (3.3) |
| | ===== | ===== | ===== |

The Company's equity in income (loss) differs from the summary net income (loss) due to various percentage ownerships in the entities and equity method accounting adjustments. At December 31, 1995, KACC's investment in its unconsolidated affiliates exceeded its equity in their net assets by approximately \$54.9. The Company is amortizing this amount over a 12-year period, which results in an annual amortization charge of approximately \$11.4.

The Company and its affiliates have interrelated operations. KACC provides some of its affiliates with services such as financing,

management, and engineering. Significant activities with affiliates include the acquisition and processing of bauxite, alumina, and primary aluminum. Purchases from these affiliates were \$284.4, \$219.7, and \$206.6 in the years ended December 31, 1995, 1994, and 1993, respectively. Dividends of \$8.1, nil, and nil were received from investees in the years ended December 31, 1995, 1994, and 1993, respectively.

In 1995, a subsidiary of the Company invested \$9.0 in a foreign joint venture. This amount is included in Investments in and advances to unconsolidated affiliates.

KAISER ALUMINUM CORPORATION AND SUBSIDIARY COMPANIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
(In millions of dollars, except share amounts)

3. Property, Plant, and Equipment

The major classes of property, plant, and equipment are as follows:

| | December 31, | |
|--------------------------------------|--------------|-----------|
| | 1995 | 1994 |
| Land and improvements | \$ 151.8 | \$ 153.5 |
| Buildings | 198.5 | 196.8 |
| Machinery and equipment | 1,337.6 | 1,285.0 |
| Construction in progress | 59.6 | 45.0 |
| | 1,747.5 | 1,680.3 |
| Accumulated depreciation | 637.9 | 547.1 |
| Property, plant, and equipment - net | \$1,109.6 | \$1,133.2 |

4. Long-Term Debt

Long-term debt and its maturity schedule are as follows:

| | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 and After | December 31, | |
|-----------------------------------------------------------------------------------|--------|--------|--------|---------|-------|----------------------|---------------|---------------|
| | | | | | | | 1995 Total | 1994 Total |
| 1994 Credit Agreement (9.00% at December 31, 1995) | | | | \$ 13.1 | | | \$ 13.1 | \$ 6.7 |
| 9-7/8% Senior Notes, net | | | | | | \$223.8 | 223.8 | 223.6 |
| Pollution Control and Solid Waste Disposal Facilities Obligations (6.00% - 7.75%) | \$ 1.2 | \$ 1.3 | \$ 1.4 | .2 | \$.2 | 32.6 | 36.9 | 38.1 |
| Alpart CARIFA Loan (fixed and variable rates) | | | | | | 60.0 | 60.0 | 60.0 |
| Alpart Term Loan (8.95%) | 6.3 | 6.2 | | | | | 12.5 | 18.7 |
| 12-3/4% Senior Subordinated Notes | | | | | | 400.0 | 400.0 | 400.0 |

| | | | | | | | | |
|---------------------------------------------|--------|--------|--------|---------|-------|----------|---------|---------|
| Other borrowings (fixed and variable rates) | 1.4 | 1.4 | 7.7 | .3 | .2 | .8 | 11.8 | 15.5 |
| | ----- | ----- | ----- | ----- | ----- | ----- | ----- | ----- |
| Total | \$ 8.9 | \$ 8.9 | \$ 9.1 | \$ 13.6 | \$.4 | \$ 717.2 | 758.1 | 762.6 |
| | ===== | ===== | ===== | ===== | ===== | ===== | ===== | ===== |
| Less current portion | | | | | | | 8.9 | 11.5 |
| | | | | | | | ----- | ----- |
| Long-term debt | | | | | | | \$749.2 | \$751.1 |
| | | | | | | | ===== | ===== |

1994 Credit Agreement

On February 17, 1994, the Company and KACC entered into a credit agreement with BankAmerica Business Credit, Inc. and certain other lenders (as amended, the "1994 Credit Agreement"). The 1994 Credit Agreement consists of a \$325.0 five-year secured, revolving line of credit, scheduled to mature in 1999. KACC is able to borrow under the facility by means of revolving credit advances and letters of credit (up to \$125.0) in an aggregate amount equal to the lesser of \$325.0 or a borrowing base relating to eligible accounts receivable plus eligible inventory. The Company recorded a pre-tax extraordinary loss of \$8.3 (\$5.4 after taxes) in the first quarter of 1994, consisting primarily of the write-off of unamortized deferred financing costs related to the previous credit agreement. As of December 31, 1995, \$259.3 (of which \$72.4 could have been used for letters of credit) was available to KACC under the 1994 Credit Agreement. The 1994 Credit Agreement is unconditionally guaranteed by the Company and by certain significant subsidiaries of KACC. Loans under the 1994 Credit Agreement bear interest at a rate per annum, at KACC's election, equal to a Reference Rate (as defined) plus 1-1/2% or LIBO Rate (Reserve Adjusted) (as defined) plus 3-1/4%. After June 30, 1995, the interest rate margins applicable to borrowings under the 1994 Credit Agreement may be reduced by up to 1-1/2% (non-cumulatively), based on a financial

KAISER ALUMINUM CORPORATION AND SUBSIDIARY COMPANIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued) (In millions of dollars, except share amounts)

test, determined quarterly. As of December 31, 1995, the financial test permitted a reduction of 1-1/2% per annum in margins effective January 1, 1996.

The 1994 Credit Agreement requires KACC to maintain certain financial covenants and places restrictions on the Company's and KACC's ability to, among other things, incur debt and liens, make investments, pay dividends, undertake transactions with affiliates, make capital expenditures, and enter into unrelated lines of business. Neither the Company nor KACC currently is permitted to pay dividends on its common stock. The 1994 Credit Agreement is secured by, among other things, (i) mortgages on KACC's major domestic plants (excluding the Gramercy plant); (ii) subject to certain exceptions, liens on the accounts receivable, inventory, equipment, domestic patents and trademarks, and substantially all other personal property of KACC and certain of its subsidiaries; (iii) a pledge of all the stock of KACC owned by Kaiser; and (iv) pledges of all of the stock of a number of KACC's wholly owned domestic subsidiaries, pledges of a portion of the stock of certain foreign subsidiaries, and pledges of a portion of the stock of certain partially owned foreign affiliates.

Senior Notes

Concurrent with the offering by the Company of its 8.255% PRIDES, Convertible Preferred Stock (the "PRIDES") (see Note 7), KACC issued \$225.0 of its 9-7/8% Senior Notes due 2002 (the "Senior Notes"). The net proceeds of the offering of the Senior Notes were used to reduce

outstanding borrowings under the revolving credit facility of the 1989 Credit Agreement immediately prior to the effectiveness of the 1994 Credit Agreement and for working capital and general corporate purposes.

Gramercy Solid Waste Disposal Revenue Bonds

In December 1992, KACC entered into an installment sale agreement (the "Sale Agreement") with the Parish of St. James, Louisiana (the "Louisiana Parish"), pursuant to which the Louisiana Parish issued \$20.0 aggregate principal amount of its 7-3/4% Bonds due August 1, 2022 (the "Bonds") to finance the construction of certain solid waste disposal facilities at KACC's Gramercy plant. The proceeds from the sale of the Bonds were deposited into a construction fund and may be withdrawn, from time to time, pursuant to the terms of the Sale Agreement and the Bond indenture. At December 31, 1995, \$3.8 remained in the construction fund. The Sale Agreement requires KACC to make payments to the Louisiana Parish in installments due on the dates and in the amounts required to permit the Louisiana Parish to satisfy all of its payment obligations under the Bonds.

Alpart CARIFA Loan

In December 1991, Alpart entered into a loan agreement with the Caribbean Basin Projects Financing Authority ("CARIFA") under which CARIFA loaned Alpart the proceeds from the issuance of CARIFA's industrial revenue bonds. The terms of the loan parallel the bonds' repayment terms. The \$38.0 aggregate principal amount of Series A bonds matures on June 1, 2008. Substantially all of the Series A bonds bear interest at a floating rate of 87% of the applicable LIBID Rate (LIBOR less 1/8 of 1%). The \$22.0 aggregate principal amount of Series B bonds matures on June 1, 2007, and bears interest at a fixed rate of 8.25%.

Proceeds from the sale of the bonds were used by Alpart to refinance interim loans from the partners in Alpart, to pay eligible project costs for the expansion and modernization of its alumina refinery and related port and bauxite mining facilities, and to pay certain costs of issuance. Under the terms of the loan agreement, Alpart must remain a qualified recipient for Caribbean Basin Initiative funds as defined in applicable laws. Alpart has agreed to indemnify bondholders of CARIFA for certain tax payments that could result from events, as defined, that adversely affect the tax treatment of the interest income on the bonds. Alpart's obligations under the loan agreement are secured by a \$64.2 letter of credit guaranteed by the partners in Alpart (of which \$22.5 is guaranteed by the Company's minority partner in Alpart).

KAISER ALUMINUM CORPORATION AND SUBSIDIARY COMPANIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
(In millions of dollars, except share amounts)

Senior Subordinated Notes

On February 1, 1993, KACC issued \$400.0 of its 12-3/4% Senior Subordinated Notes due 2003 (the "12-3/4% Notes"). The net proceeds from the sale of the 12-3/4% Notes were used to retire the 14-1/4% Senior Subordinated Notes due 1995 (the "14-1/4% Notes"), to prepay \$18.0 of the term loan, and to reduce outstanding borrowings under the revolving credit facility of the 1989 Credit Agreement. These transactions resulted in a pre-tax extraordinary loss of \$33.0 in the first quarter of 1993, consisting primarily of the write-off of unamortized discount and deferred financing costs related to the 14-1/4% Notes.

The obligations of KACC with respect to the Senior Notes and the

12-3/4% Notes are guaranteed, jointly and severally, by certain subsidiaries of KACC. The indentures governing the Senior Notes and the 12-3/4% Notes (the "Indentures") restrict, among other things, KACC's ability, and the 1994 Credit Agreement restricts, among other things, Kaiser's and KACC's ability, to incur debt, undertake transactions with affiliates, and pay dividends. Further, the Indentures provide that KACC must offer to purchase the Senior Notes and the 12-3/4% Notes, respectively, upon the occurrence of a Change of Control (as defined therein), and the 1994 Credit Agreement provides that the occurrence of a Change in Control (as defined therein) shall constitute an Event of Default thereunder.

Capitalized Interest

Interest capitalized in 1995, 1994, and 1993 was \$2.8, \$2.7, and \$3.4, respectively.

Restricted Net Assets of Subsidiary

Certain debt instruments restrict the ability of KACC to transfer assets, make loans and advances, and pay dividends to the Company. The restricted net assets of KACC totaled \$24.0 at December 31, 1995.

5. Income Taxes

- - - - -

Income (loss) before income taxes, minority interests, extraordinary loss, and cumulative effect of changes in accounting principles by geographic area is as follows:

| | Year Ended December 31, | | |
|----------|-------------------------|------------|------------|
| | 1995 | 1994 | 1993 |
| Domestic | \$ (55.9) | \$ (168.4) | \$ (232.0) |
| Foreign | 158.5 | 16.3 | 23.5 |
| Total | \$ 102.6 | \$ (152.1) | \$ (208.5) |

Income taxes are classified as either domestic or foreign, based on whether payment is made or due to the United States or a foreign country. Certain income classified as foreign is also subject to domestic income taxes.

KAISER ALUMINUM CORPORATION AND SUBSIDIARY COMPANIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
(In millions of dollars, except share amounts)

The (provision) credit for income taxes on income (loss) before income taxes, minority interests, extraordinary loss, and cumulative effect of changes in accounting principles consists of:

| | Federal | Foreign | State | Total |
|--------------|----------|-----------|----------|-----------|
| 1995 Current | \$ (4.3) | \$ (40.2) | \$ (.1) | \$ (44.6) |
| Deferred | 15.2 | (4.9) | (2.9) | 7.4 |
| Total | \$ 10.9 | \$ (45.1) | \$ (3.0) | \$ (37.2) |

| | | | | | |
|------|----------|---------|-----------|---------|-----------|
| | | ===== | ===== | ===== | ===== |
| 1994 | Current | | \$ (18.0) | \$ (.1) | \$ (18.1) |
| | Deferred | \$ 71.2 | .6 | .1 | 71.9 |
| | | ----- | ----- | ----- | ----- |
| | Total | \$ 71.2 | \$ (17.4) | | \$ 53.8 |
| | | ===== | ===== | ===== | ===== |
| 1993 | Current | \$ 12.6 | \$ (7.9) | \$ (.1) | \$ 4.6 |
| | Deferred | 68.5 | 12.0 | 1.8 | 82.3 |
| | | ----- | ----- | ----- | ----- |
| | Total | \$ 81.1 | \$ 4.1 | \$ 1.7 | \$ 86.9 |
| | | ===== | ===== | ===== | ===== |

The 1994 federal deferred credit for income taxes of \$71.2 includes \$29.3 for the benefit of operating loss carryforwards generated in 1994. The 1993 federal deferred credit for income taxes of \$68.5 includes \$29.2 for the benefit of operating loss carryforwards generated in 1993 and a \$3.4 benefit for increasing net deferred income tax assets (liabilities) as of the date of enactment (August 10, 1993) of the Omnibus Budget Reconciliation Act of 1993, which retroactively increased the federal statutory income tax rate from 34% to 35% for periods beginning on or after January 1, 1993.

A reconciliation between the (provision) credit for income taxes and the amount computed by applying the federal statutory income tax rate to income (loss) before income taxes, minority interests, extraordinary loss, and cumulative effect of changes in accounting principles is as follows:

| | Year Ended December 31, | | |
|----------------------------------------------------------------------------------|-------------------------|---------|---------|
| | 1995 | 1994 | 1993 |
| ----- | ----- | ----- | ----- |
| Amount of federal income tax (provision) credit based on the statutory rate | \$ (35.9) | \$ 53.2 | \$ 73.0 |
| Percentage depletion | 4.2 | 5.6 | 6.4 |
| Revision of prior years' tax estimates and other changes in valuation allowances | 1.5 | .2 | 3.9 |
| Foreign taxes, net of federal tax benefit | (5.4) | (5.3) | (2.6) |
| Increase in net deferred income tax assets due to tax rate change | | 1.8 | 3.4 |
| Other | (1.6) | (1.7) | 2.8 |
| | ----- | ----- | ----- |
| (Provision) credit for income taxes | \$ (37.2) | \$ 53.8 | \$ 86.9 |
| | ===== | ===== | ===== |

As shown in the Statements of Consolidated Income (Loss) for the years ended December 31, 1994 and 1993, the Company reported extraordinary losses related to the early extinguishment of debt. The Company reported the 1994 extraordinary loss net of related deferred federal income taxes of \$2.9 and reported the 1993 extraordinary loss net of related current federal income taxes of \$11.2, which approximated the federal statutory rate in effect on the dates the transactions occurred.

KAISER ALUMINUM CORPORATION AND SUBSIDIARY COMPANIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
(In millions of dollars, except share amounts)

The Company adopted SFAS 109 as of January 1, 1993, as discussed in Note 1. The components of the Company's net deferred income tax assets are as follows:

| | December 31, | |
|----------------------------------------------------------|---------------|---------------|
| | ----- 1995 | 1994 ----- |
| ----- | | |
| Deferred income tax assets: | | |
| Postretirement benefits other than pensions | \$ 289.9 | \$ 293.7 |
| Loss and credit carryforwards | 156.1 | 187.6 |
| Other liabilities | 107.8 | 109.6 |
| Pensions | 56.0 | 51.0 |
| Foreign and state deferred income tax liabilities | 30.8 | 28.1 |
| Property, plant, and equipment | 22.9 | 23.1 |
| Inventories | 1.8 | |
| Other | 10.7 | 3.5 |
| Valuation allowances | (128.5) | (133.9) |
| | ----- | ----- |
| Total deferred income tax assets - net | 547.5 | 562.7 |
| | ----- | ----- |
| Deferred income tax liabilities: | | |
| Property, plant, and equipment | (179.8) | (203.2) |
| Investments in and advances to unconsolidated affiliates | (66.4) | (63.8) |
| Inventories | | (8.3) |
| Other | (9.5) | (6.4) |
| | ----- | ----- |
| Total deferred income tax liabilities | (255.7) | (281.7) |
| | ----- | ----- |
| Net deferred income tax assets | \$ 291.8 | \$ 281.0 |
| | ===== | ===== |

The valuation allowances listed above relate primarily to loss and credit carryforwards and postretirement benefits other than pensions. As of December 31, 1995, approximately \$97.7 of the net deferred income tax assets listed above relate to the benefit of loss and credit carryforwards, net of valuation allowances. The Company evaluated all appropriate factors to determine the proper valuation allowances for these carryforwards, including any limitations concerning their use and the year the carryforwards expire, as well as the levels of taxable income necessary for utilization. For example, full valuation allowances were provided for certain credit carryforwards that expire in the near term. With regard to future levels of income, the Company believes, based on the cyclical nature of its business, its history of prior operating earnings, and its expectations for future years, that it will more likely than not generate sufficient taxable income to realize the benefit attributable to the loss and credit carryforwards for which valuation allowances were not provided. The remaining portion of the Company's net deferred income tax assets at December 31, 1995, is approximately \$194.1. A principal component of this amount is the tax benefit associated with the accrual for postretirement benefits other than pensions. The future tax deductions with respect to the turnaround of this accrual will occur over a 30- to 40-year period. If such deductions create or increase a net operating loss in any one year, the Company has the ability to carry forward such loss for 15 taxable years. For these reasons, the Company believes a long-term view of profitability is appropriate and has concluded that this net deferred income tax asset will more likely than not be realized, despite the operating losses incurred in recent years.

As of December 31, 1995 and 1994, \$53.5 and \$37.9, respectively, of the net deferred income tax assets listed above are included on the Consolidated Balance Sheets in the caption entitled Prepaid expenses and other current assets. Certain other portions of the deferred income tax assets and liabilities listed above are included on the Consolidated Balance Sheets in the captions entitled Other accrued liabilities and Long-term liabilities.

KAISER ALUMINUM CORPORATION AND SUBSIDIARY COMPANIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
(In millions of dollars, except share amounts)

The Company and its subsidiaries were included in the consolidated federal income tax returns of MAXXAM for the period from October 28, 1988, through June 30, 1993. As a consequence of the issuance of the Depositary Shares on June 30, 1993, as discussed in Note 7, the Company and its subsidiaries are no longer included in the consolidated federal income tax returns of MAXXAM. The Company and its subsidiaries have become members of a new consolidated return group of which the Company is the common parent corporation (the "New Kaiser Tax Group"). The New Kaiser Tax Group files consolidated federal income tax returns for taxable periods beginning on or after July 1, 1993.

The tax allocation agreement between the Company and MAXXAM (the "Company Tax Allocation Agreement") and the tax allocation agreement between KACC and MAXXAM (the "KACC Tax Allocation Agreement") (collectively, the "Tax Allocation Agreements"), terminated pursuant to their terms, effective for taxable periods beginning after June 30, 1993. Any unused federal income tax attribute carryforwards under the terms of the Tax Allocation Agreements were eliminated and are not available to offset federal income tax liabilities for taxable periods beginning on or after July 1, 1993. Upon the filing of MAXXAM's 1993 consolidated federal income tax return, the tax attribute carryforwards of the MAXXAM consolidated return group as of December 31, 1993, were apportioned in part to the New Kaiser Tax Group, based on the provisions of the relevant consolidated return regulations. The benefit of such tax attribute carryforwards apportioned to the New Kaiser Tax Group approximated the benefit of tax attribute carryforwards eliminated under the Tax Allocation Agreements. To the extent the New Kaiser Tax Group generates unused tax losses or tax credits for periods beginning on or after July 1, 1993, such amounts will not be available to obtain refunds of amounts paid by the Company or KACC to MAXXAM for periods ending on or before June 30, 1993, pursuant to the Tax Allocation Agreements.

KACC and MAXXAM entered into the KACC Tax Allocation Agreement, which became effective as of October 28, 1988. Under the terms of the KACC Tax Allocation Agreement, MAXXAM computed the federal income tax liability for KACC and its subsidiaries (collectively, the "Subgroup") as if the Subgroup were a separate affiliated group of corporations which was never connected with MAXXAM. During 1991, the Company and MAXXAM entered into the Company Tax Allocation Agreement, which became effective as of January 1, 1991. Under the terms of the Company Tax Allocation Agreement, MAXXAM computed a tentative federal income tax liability for the Company as if it and its subsidiaries, including KACC and its subsidiaries, were a separate affiliated group of corporations which was never connected with MAXXAM. The federal income tax liability of the Company was the difference between the tentative federal income tax liability and the liability computed under the KACC Tax Allocation Agreement.

The provisions of the Tax Allocation Agreements will continue to govern for periods ended prior to July 1, 1993. Therefore, payments or refunds may still be required by or payable to the Company or KACC under the terms of their respective tax allocation agreements for these periods due to the final resolution of audits, amended returns, and related matters. However, the 1994 Credit Agreement prohibits the payment by KACC to MAXXAM of any amounts due under the KACC Tax Allocation Agreement, except for certain payments that are required as a result of audits and only to the extent of any amounts paid after February 17, 1994, by MAXXAM to KACC under the KACC Tax Allocation Agreement.

KAISER ALUMINUM CORPORATION AND SUBSIDIARY COMPANIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
(In millions of dollars, except share amounts)

The following table presents the Company's tax attributes for federal income tax purposes as of December 31, 1995. The utilization of certain of these tax attributes is subject to limitations:

| | | Expiring Through |
|--------------------------------------------------|---------|---------------------|
| ----- | | |
| Regular tax attribute carryforwards: | | |
| Net operating losses | \$ 32.9 | 2007 |
| General business tax credits | 28.4 | 2008 |
| Foreign tax credits | 89.7 | 2000 |
| Alternative minimum tax credits | 19.4 | Indefinite |
| Alternative minimum tax attribute carryforwards: | | |
| Net operating losses | \$ 17.1 | 2002 |
| Foreign tax credits | 83.5 | 2000 |

6. Employee Benefit and Incentive Plans

Retirement Plans

Retirement plans are non-contributory for salaried and hourly employees and generally provide for benefits based on a formula which considers length of service and earnings during years of service. The Company's funding policies meet or exceed all regulatory requirements.

The funded status of the employee pension benefit plans and the corresponding amounts that are included in the Company's Consolidated Balance Sheets are as follows:

| | Plans with Accumulated Benefits Exceeding Assets (1) December 31, | |
|------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------|----------|
| | 1995 | 1994 |
| ----- | | |
| Accumulated benefit obligation: | | |
| Vested employees | \$ 753.0 | \$ 663.9 |
| Nonvested employees | 28.7 | 41.1 |
| Accumulated benefit obligation | 781.7 | 705.0 |
| Additional amounts related to projected salary increases | 34.2 | 30.0 |
| Projected benefit obligation | 815.9 | 735.0 |
| Plan assets (principally common stocks and fixed income obligations) at fair value | (592.3) | (524.6) |
| Plan assets less than projected benefit obligation | 223.6 | 210.4 |
| Unrecognized net losses | (54.7) | (42.5) |
| Unrecognized net obligations | (.5) | (.8) |
| Unrecognized prior-service cost | (28.2) | (30.9) |
| Adjustment required to recognize minimum liability | 49.8 | 42.9 |
| Accrued pension obligation included in the Consolidated Balance Sheets (principally in Long-term liabilities) | \$ 190.0 | \$ 179.1 |
| | ===== | ===== |

(1) Includes plans with assets exceeding accumulated benefits by approximately \$.1 and \$.3 in 1995 and 1994, respectively.

As required by Statement of Financial Accounting Standards No. 87, "Employers' Accounting for Pensions," the Company recorded an after-tax credit (charge) to equity of \$(4.7) and \$12.5 at December 31, 1995 and 1994, respectively, for the reduction (excess) of the minimum liability over the unrecognized net obligation and prior-service cost. These amounts

KAISER ALUMINUM CORPORATION AND SUBSIDIARY COMPANIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
(In millions of dollars, except share amounts)

were recorded net of the related income tax (provision) credit of \$2.8 and \$(7.3) as of December 31, 1995 and 1994, respectively, which approximated the federal and state statutory rates.

The components of net periodic pension cost are:

| | Year Ended December 31, | | |
|--------------------------------------------------|-------------------------|---------|---------|
| | 1995 | 1994 | 1993 |
| Service cost - benefits earned during the period | \$ 10.0 | \$ 11.2 | \$ 10.8 |
| Interest cost on projected benefit obligation | 59.8 | 57.3 | 59.2 |
| Return on assets: | | | |
| Actual gain | (112.2) | (.8) | (70.3) |
| Deferred gain (loss) | 64.6 | (53.0) | 15.9 |
| Net amortization and deferral | 4.2 | 4.1 | 2.3 |
| Net periodic pension cost | \$ 26.4 | \$ 18.8 | \$ 17.9 |

Assumptions used to value obligations at year-end, and to determine the net periodic pension cost in the subsequent year are:

| | 1995 | 1994 | 1993 |
|---------------------------------------------|------|------|-------|
| Discount rate | 7.5% | 8.5% | 7.5% |
| Expected long-term rate of return on assets | 9.5% | 9.5% | 10.0% |
| Rate of increase in compensation levels | 5.0% | 5.0% | 5.0% |

Postretirement Benefits Other Than Pensions

The Company and its subsidiaries provide postretirement health care and life insurance benefits to eligible retired employees and their dependents. Substantially all employees may become eligible for those benefits if they reach retirement age while still working for the Company or its subsidiaries. These benefits are provided through contracts with various insurance carriers. The Company has not funded the liability for these benefits, which are expected to be paid out of cash generated by operations. The Company adopted SFAS 106 to account for Postretirement benefits other than pensions as of January 1, 1993, as discussed in Note 1.

In 1995, the Company adopted the Kaiser Aluminum Medicare Program ("KAMP"). KAMP is mandatory for all salaried retirees over 65 and for USWA retirees who retire after December 31, 1995, when they become 65, and voluntary for other hourly retirees of the Company's operations in the states of California, Louisiana, and Washington. The USWA contract, ratified on February 28, 1995, also contained changes to the retiree health benefits. These changes included increased retirees' copayments, deductibles, and coinsurance, and restricted Medicare Part

B premium reimbursement to the 1995 level for employees retiring after November 1, 1994. These changes will lower the Company's expenses for retiree medical care.

KAISER ALUMINUM CORPORATION AND SUBSIDIARY COMPANIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
(In millions of dollars, except share amounts)

The Company's accrued postretirement benefit obligation is composed of the following:

| | December 31, | |
|-----------------------------------------------------------|--------------|---------|
| | 1995 | 1994 |
| Accumulated postretirement benefit obligation: | | |
| Retirees | \$557.6 | \$566.2 |
| Active employees eligible for postretirement benefits | 30.7 | 30.2 |
| Active employees not eligible for postretirement benefits | 61.1 | 98.7 |
| Accumulated postretirement benefit obligation | 649.4 | 695.1 |
| Unrecognized net gains | 20.5 | 55.0 |
| Unrecognized gains related to prior-service costs | 110.9 | 31.8 |
| Accrued postretirement benefit obligation | \$780.8 | \$781.9 |

The components of net periodic postretirement benefit cost are:

| | Year Ended December 31, | | |
|------------------------------------------|-------------------------|---------|---------|
| | 1995 | 1994 | 1993 |
| Service cost | \$ 4.5 | \$ 8.2 | \$ 7.1 |
| Interest cost | 52.3 | 56.9 | 58.5 |
| Amortization of prior service cost | (8.9) | (3.2) | |
| Net periodic postretirement benefit cost | \$ 47.9 | \$ 61.9 | \$ 65.6 |

The 1996 annual assumed rates of increase in the per capita cost of covered benefits (i.e., health care cost trend rate) are 8.0% and 7.5% for retirees under 65 and over 65, respectively, and are assumed to decrease gradually to 5.0% in 2007 and remain at that level thereafter. The health care cost trend rate has a significant effect on the amounts reported. A one percentage point increase in the assumed health care cost trend rate would increase the accumulated postretirement benefit obligation as of December 31, 1995, by approximately \$68.7 and the aggregate of the service and interest cost components of net periodic postretirement benefit cost for 1995 by approximately \$7.8. The weighted average discount rate used to determine the accumulated postretirement benefit obligation at December 31, 1995 and 1994, was 7.5% and 8.5%, respectively.

Postemployment Benefits

The Company provides certain benefits to former or inactive employees after employment but before retirement. The Company adopted SFAS 112 to account for postemployment benefits as of January 1, 1993, as discussed in Note 1.

Incentive Plans

Effective January 1, 1989, the Company and KACC adopted an unfunded Long-Term Incentive Plan (the "LTIP") for certain key employees of the Company, KACC, and their consolidated subsidiaries. All compensation vested as of December 31, 1992, under the LTIP, as amended in 1991 and 1992, has been paid to the participants in cash or common stock of the Company as of December 31, 1993. Under the LTIP, as amended, 764,092 restricted shares were distributed to six Company executives during 1993 for benefits generally earned but not vested as of December 31, 1992. These shares generally will vest at the rate of 25% per year. The Company will record the related expense of \$6.5 over the four-year period ending December 31, 1996. In 1993, the Company adopted the Kaiser 1993 Omnibus Stock Incentive Plan. A total of 2,500,000 shares of Kaiser common stock were reserved for awards or for payment of rights granted under the Plan, of which 544,839 shares were available to be awarded at December 31, 1995. Under the Kaiser 1993 Omnibus Stock Incentive Plan, 102,564 restricted shares were distributed to two Company executives during 1994, which will vest at the

KAISER ALUMINUM CORPORATION AND SUBSIDIARY COMPANIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
(In millions of dollars, except share amounts)

rate of 25% per year. The Company will record the related expense of \$1.0 over the four-year period ending December 31, 1998.

In 1993 and 1994, the Compensation Committee of the Board of Directors approved the award of "nonqualified stock options" to members of management other than those participating in the LTIP. These options generally will vest at the rate of 20-25% per year. Information relating to nonqualified stock options is shown below:

| | 1995 | 1994 | 1993 |
|------------------------------------------------------------------------------|-----------|-----------|---------|
| ----- | | | |
| Outstanding at beginning of year | 1,119,680 | 664,400 | |
| Granted | | 494,800 | 664,400 |
| Exercised (at \$7.25 and \$9.75 per share) | (155,500) | (6,920) | |
| Expired or forfeited | (38,095) | (32,600) | |
| | ----- | ----- | ----- |
| Outstanding at end of year (prices ranging from \$7.25 to \$12.75 per share) | 926,085 | 1,119,680 | 664,400 |
| | ===== | ===== | ===== |
| Exercisable at end of year | 211,755 | 120,180 | |
| | ===== | ===== | |

In 1995, the Company adopted the Kaiser Aluminum Total Compensation System, an unfunded incentive compensation program. The program provides incentive pay based on performance against plan over a three-year period. KACC also has a supplemental savings and retirement plan for salaried employees, under which the participants contribute a percentage of their base salaries.

The Company's expense for the above plans was \$11.9, \$6.1, and \$5.3 for the years ended December 31, 1995, 1994, and 1993, respectively.

KAISER ALUMINUM CORPORATION AND SUBSIDIARY COMPANIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
(In millions of dollars, except share amounts)7. Stockholders' Equity and Minority Interests

Changes in stockholders' equity and minority interests were:

| | Minority Interests | | Stockholders' Equity | | | | |
|--------------------------------------------------------------------------|-----------------------------------|---------|----------------------|-----------------|-----------------------|-------------------------------------------------------|-----------------------------------------------|
| | Redeemable Preference Stock | Other | Preferred Stock | Common Stock | Additional Capital | Retained Earnings (Accu- mulated Deficit) | Additional Minimum Pension Liability |
| BALANCE, DECEMBER 31, 1992 | \$ 32.8 | \$ 72.1 | | \$.6 | \$288.5 | \$ 282.8 | \$ (6.7) |
| Net loss | | | | | | (652.2) | |
| Redeemable preference stock: | | | | | | | |
| Accretion | 4.8 | | | | | | |
| Stock redemption | (4.0) | | | | | | |
| Conversions (1,967 preference shares into cash) | | (.2) | | | | | |
| Common stock issued | | | | | 3.3 | | |
| Preferred stock issued | | | \$.2 | | 134.1 | | |
| Dividends on preferred stock | | | | | | (6.3) | |
| Minority interest in majority-owned subsidiaries | | (.5) | | | | | |
| Additional minimum pension liability | | | | | | | (14.9) |
| BALANCE, DECEMBER 31, 1993 | 33.6 | 71.4 | .2 | .6 | 425.9 | (375.7) | (21.6) |
| Net loss | | | | | | (106.8) | |
| Redeemable preference stock: | | | | | | | |
| Accretion | 4.0 | | | | | | |
| Stock redemption | (8.5) | | | | | | |
| Common stock issued | | | | | 2.2 | | |
| Preferred stock issued | | | .4 | | 99.7 | | |
| Dividends on preferred stock | | | | | | (20.1) | |
| Minority interest in majority-owned subsidiaries | | 15.7 | | | | | |
| Reduction of minimum pension liability | | | | | | | 12.5 |
| BALANCE, DECEMBER 31, 1994 | 29.1 | 87.1 | .6 | .6 | 527.8 | (502.6) | (9.1) |
| Net income | | | | | | 60.3 | |
| Redeemable preference stock: | | | | | | | |
| Accretion | 3.9 | | | | | | |
| Stock redemption | (8.7) | | | | | | |
| Stock repurchase | 5.4 | | | | | | |
| Conversions (1,222 preference shares into cash) | | (.1) | | | | | |
| Common stock issued upon redemption and conversion of preferred stock | | | (.2) | .1 | 1.1 | | |
| Dividends on preferred stock | | | | | | (17.6) | |
| Minority interest in majority-owned subsidiaries | | 6.0 | | | | | |
| Incentive plans accretion | | | | | 1.4 | | |
| Additional minimum pension liability | | | | | | | (4.7) |
| BALANCE, DECEMBER 31, 1995 | \$ 29.7 | \$ 93.0 | \$.4 | \$.7 | \$530.3 | \$(459.9) | \$(13.8) |

KAISER ALUMINUM CORPORATION AND SUBSIDIARY COMPANIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

(In millions of dollars, except share amounts)

Redeemable Preference Stock

In March 1985, KACC entered into a three-year agreement with the USWA whereby shares of a new series of "Cumulative (1985 Series A) Preference Stock" would be issued to an employee stock ownership plan in exchange for certain elements of wages and benefits. Concurrently, a similar plan was established for certain nonbargaining employees which provided for the issuance of "Cumulative (1985 Series B) Preference Stock." Series A Stock and Series B Stock ("Series A and B Stock") each have a par value of \$1 per share and a liquidation and redemption value of \$50 per share plus accrued dividends, if any.

For financial reporting purposes, Series A and B Stock were recorded at fair market value when issued, based on independent appraisals, with a corresponding charge to compensation cost. Carrying values have been increased each year to recognize accretion of redemption values and, in certain years, there have been other increases for reasons described below. Changes in Series A and B Stock are shown below.

| | 1995 | 1994 | 1993 |
|-------------------|-----------|-----------|-----------|
| Shares: | | | |
| Beginning of year | 912,167 | 1,081,548 | 1,163,221 |
| Redeemed | (174,804) | (169,381) | (81,673) |
| End of year | 737,363 | 912,167 | 1,081,548 |

No additional Series A or B Stock will be issued. While held by the plan trustee, Series B Stock is entitled to cumulative annual dividends, when and as declared by the Board of Directors, payable in stock or in cash at the option of KACC on or after March 1, 1991, in respect to years commencing January 1, 1990, based on a formula tied to KACC's income before tax from aluminum operations. When distributed to plan participants (generally upon separation from KACC), the Series A and B Stocks are entitled to an annual cash dividend of \$5 per share, payable quarterly, when and as declared by the Board of Directors.

Redemption fund agreements require KACC to make annual payments by March 31 each year based on a formula tied to consolidated net income until the redemption funds are sufficient to redeem all Series A and B Stock. On an annual basis, the minimum payment is \$4.3 and the maximum payment is \$7.3. In March 1994 and 1995, KACC contributed \$4.3 for each of the years 1993 and 1994, and will contribute \$4.3 in March 1996 for 1995.

Under the USWA labor contract effective November 1, 1994, KACC is obligated to offer to purchase up to 40 shares of Series A Stock from each active participant in 1995 at a price equal to its redemption value of \$50 per share. KACC also agreed to offer to purchase up to an additional 80 shares from each participant in 1998. In addition, a profitability test was satisfied for 1995; therefore, KACC will offer to purchase from each active participant an additional 20 shares of such preference stock held in the stock ownership plan for the benefit of substantially the same employees in 1996. The employees could elect to receive their shares, accept cash, or place the proceeds into KACC's 401(k) savings plan. KACC will provide comparable purchases of Series B Stock from active participants.

The Series A and B Stock is distributed in the event of death, retirement, or in other specified circumstances. KACC also may redeem such stock at \$50 per share plus accrued dividends, if any. At the option of the plan participant, the trustee shall redeem stock distributed from the plans at redemption value to the extent funds are available in the redemption fund. Under the Tax Reform Act of 1986, at the option of the plan participant, KACC must purchase distributed shares earned after December 31, 1985, at redemption value on a five-

year installment basis, with interest at market rates. The obligation of KACC to make such installment payments must be secured.

KAISER ALUMINUM CORPORATION AND SUBSIDIARY COMPANIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
(In millions of dollars, except share amounts)

The Series A and B Stock is entitled to the same voting rights as KACC common stock and to certain additional voting rights under certain circumstances, including the right to elect, along with other KACC preference stockholders, two directors whenever accrued dividends have not been paid on two annual dividend payment dates or when accrued dividends in an amount equivalent to six full quarterly dividends are in arrears. The Series A and B Stock restricts the ability of KACC to redeem or pay dividends on common stock if KACC is in default on any dividends payable on the Series A and B Stock.

Preference Stock

KACC Cumulative Convertible Preference Stock, \$100 par value ("\$100 Preference Stock"), restricts acquisition of junior stock and payment of dividends. At December 31, 1995, such provisions were less restrictive as to the payment of cash dividends than the 1994 Credit Agreement provisions. KACC has the option to redeem the \$100 Preference Stocks at par value plus accrued dividends. KACC does not intend to issue any additional shares of the \$100 Preference Stocks.

The 4-1/8% and 4-3/4% (1957 Series, 1959 Series, and 1966 Series) \$100 Preference Stock can be exchanged for per share cash amounts of \$69.30, \$77.84, \$78.38, and \$76.46, respectively. KACC records the \$100 Preference Stock at their exchange amounts for financial statement presentation and the Company includes such amounts in minority interests. The outstanding shares of KACC preference stock were:

| | December 31, | |
|----------------------|--------------|--------|
| | ----- | ----- |
| | 1995 | 1994 |
| ----- | ----- | ----- |
| 4-1/8% | 3,237 | 3,657 |
| 4-3/4% (1957 Series) | 2,342 | 2,605 |
| 4-3/4% (1959 Series) | 13,162 | 13,534 |
| 4-3/4% (1966 Series) | 3,473 | 3,640 |

Preferred Stock

Series A Convertible - In 1993, Kaiser issued 19,382,950 of its \$.65 Depositary Shares (the "Depositary Shares"), each representing one-tenth of a share of Series A Mandatory Conversion Premium Dividend Preferred Stock (the "Series A Shares"). On September 19, 1995, the Company redeemed all 1,938,295 Series A Shares, which resulted in the simultaneous redemption of all Depositary Shares in exchange for (i) 13,126,521 shares of the Company's common stock and (ii) \$2.8 in cash comprised of (a) an amount equal to all accrued and unpaid dividends up to and including the day immediately prior to redemption date and (b) cash in lieu of any fractional shares of common stock that would have otherwise been issuable.

PRIDES Convertible - In the first quarter of 1994, the Company consummated the public offering of 8,855,550 shares of the PRIDES. The

net proceeds from the sale of the shares of PRIDES were approximately \$100.1. The Company used such net proceeds to make non-interest-bearing loans to KACC in the aggregate principal amount of \$33.2 (the aggregate dividends scheduled to accrue on the shares of PRIDES from the issuance date until December 31, 1997, the date on which the outstanding PRIDES will be mandatorily converted into shares of the Company's common stock), evidenced by intercompany notes, and used the balance of such net proceeds to make capital contributions to KACC in the aggregate amount of \$66.9.

Holders of shares of PRIDES are entitled to receive (when, as, and if the Board of Directors declares dividends on the PRIDES) cumulative preferential cash dividends at a rate per annum of 8.255% of the per share offering price (equivalent to \$.97 per annum for each share of PRIDES), from the date of initial issuance, payable quarterly in arrears on the last day of March, June, September, and December of each year. Holders of shares of PRIDES have a 4/5 vote for each share held of record and, except as required by law, are entitled to vote together with the holders of common stock and together with

KAISER ALUMINUM CORPORATION AND SUBSIDIARY COMPANIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
(In millions of dollars, except share amounts)

the holders of any other classes or series of stock who are entitled to vote in such manner on all matters submitted to a vote of common stockholders.

On December 31, 1997, unless either previously redeemed or converted at the option of the holder, each of the outstanding shares of PRIDES will mandatorily convert into one share of the Company's common stock, subject to adjustment in certain events, and the right to receive an amount in cash equal to all accrued and unpaid dividends thereon (other than previously declared dividends payable to a holder of record on a prior date).

Shares of PRIDES are not redeemable, at the election of the Company, prior to December 31, 1996. At any time and from time to time on or after December 31, 1996, the Company may redeem any or all of the outstanding shares of PRIDES. Upon any such redemption, each holder will receive, in exchange for each share of PRIDES, the number of shares of common stock equal to (A) the sum of \$11.9925, declining after December 31, 1996, to \$11.75 until December 31, 1997, plus, in the event the Company does not elect to pay cash dividends to the redemption date, all accrued and unpaid dividends thereon divided by (B) the Current Market Price (as defined) on the applicable date of determination, but in no event less than .8333 of a share of common stock, subject to adjustment in certain events. At any time prior to December 31, 1997, unless previously redeemed, each share of PRIDES is convertible at the option of the holder thereof into .8333 of a share of common stock (equivalent to a conversion price of \$14.10 per share of common stock), subject to adjustment in certain events. The number of shares of common stock a holder will receive upon redemption, and the value of the shares received upon conversion, will vary depending on the market price of the common stock from time to time.

Dividends on Common Stock

The indentures governing the Senior Notes and the 12-3/4% Notes restrict, among other things, KACC's ability, and the 1994 Credit Agreement restricts, among other things, Kaiser's and KACC's ability, to incur debt, undertake transactions with affiliates, and pay dividends. Under the most restrictive of these covenants, neither the

Company nor KACC currently is permitted to pay dividends on its common stock.

At December 31, 1995, 28,000,000 shares of the Company's common stock owned by MAXXAM were pledged as security for debt of a wholly owned subsidiary of MAXXAM, consisting of \$100.0 aggregate principal amount of 11-1/4% Senior Secured Notes due 2003 and \$125.7 aggregate principal amount of 12-1/4% Senior Secured Discount Notes due 2003.

Proposed Recapitalization

On February 5, 1996, the Company announced that it filed with the SEC a preliminary proxy statement relating to a proposed recapitalization and a special meeting of stockholders to consider and vote upon the proposal. The proposed recapitalization would: (i) provide for two classes of common stock: Class A Common Shares, \$.01 par value, with one vote per share and a new lesser-voting class designated as Common Stock, \$.01 par value, with 1/10 vote per share; (ii) redesignate as Class A Common Shares the 100 million currently authorized shares of existing common stock and authorize an additional 250 million shares to be designated as Common Stock; and (iii) change each issued share of the Company's existing common stock, par value \$.01 per share, into (a) .33 of a Class A Common Share and (b) .67 of a share of Common Stock. The Company would pay cash in lieu of fractional shares. The Company anticipates that both the Class A Common Shares and the Common Stock will be approved for trading on the New York Stock Exchange. Upon the effective date of the recapitalization, approximately 23,640,000 Class A Common Shares and 47,998,000 shares of Common Stock would be issued and outstanding. The proportionate voting power of the holders of the PRIDES will increase immediately after the effectiveness of the recapitalization until such shares are redeemed or converted, which will occur on or before December 31, 1997. As of January 31, 1996, holders of the existing common stock and the PRIDES had 91.2% and 8.8%, respectively, of the total voting power of all stockholders. Immediately after the recapitalization, the

KAISER ALUMINUM CORPORATION AND SUBSIDIARY COMPANIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued) (In millions of dollars, except share amounts)

voting power of such holders of the PRIDES will increase to 19.6% in the aggregate, with a corresponding reduction in the voting power of such holders of the existing common stock. At such time as the PRIDES are redeemed or converted, the relative voting power of such holders of the PRIDES will decrease and the voting power for both such holders of the PRIDES and the existing common stock will be approximately the same as it would have been had the recapitalization not occurred.

8. Commitments and Contingencies

- -----

Commitments

KACC has financial commitments, including purchase agreements, tolling arrangements, forward foreign exchange and forward sales contracts (see Note 9), letters of credit, and guarantees. Such purchase agreements and tolling arrangements include long-term agreements for the purchase and tolling of bauxite into alumina in Australia by QAL. These obligations expire in 2008. Under the agreements, KACC is unconditionally obligated to pay its proportional share of debt, operating costs, and certain other costs of QAL. The aggregate minimum amount of required future principal payments at December 31, 1995, is \$88.9, of which \$26.7 is due in 1997 and the rest is due in 2002. The KACC share of payments, including operating costs and certain other expenses under the agreement, was \$77.5, \$85.6, and \$86.7 for the

years ended December 31, 1995, 1994, and 1993, respectively. KACC also has agreements to supply alumina to and to purchase aluminum from Anglesey.

Minimum rental commitments under operating leases at December 31, 1995, are as follows: years ending December 31, 1996 - \$22.7; 1997 - \$21.6; 1998 - \$24.6; 1999 - \$29.7; 2000 - \$27.3; thereafter - \$187.0. The future minimum rentals receivable under noncancelable subleases was \$67.0 at December 31, 1995.

Rental expenses were \$29.0, \$26.8, and \$29.0 for the years ended December 31, 1995, 1994, and 1993, respectively.

Environmental Contingencies

The Company and KACC are subject to a number of environmental laws, to fines or penalties assessed for alleged breaches of the environmental laws, and to claims and litigation based upon such laws. KACC currently is subject to a number of lawsuits under the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended by the Superfund Amendments Reauthorization Act of 1986 ("CERCLA"), and, along with certain other entities, has been named as a potentially responsible party for remedial costs at certain third-party sites listed on the National Priorities List under CERCLA.

Based on the Company's evaluation of these and other environmental matters, the Company has established environmental accruals, primarily related to potential solid waste disposal and soil and groundwater remediation matters. The following table presents the changes in such accruals, which are primarily included in Long-term liabilities, for the years ended December 31, 1995, 1994, and 1993:

| | 1995 | 1994 | 1993 |
|--------------------------------|---------|---------|---------|
| Balance at beginning of period | \$ 40.1 | \$ 40.9 | \$ 46.4 |
| Additional amounts | 3.3 | 2.8 | 1.7 |
| Less expenditures | (4.5) | (3.6) | (7.2) |
| Balance at end of period | \$ 38.9 | \$ 40.1 | \$ 40.9 |

KAISER ALUMINUM CORPORATION AND SUBSIDIARY COMPANIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
(In millions of dollars, except share amounts)

These environmental accruals represent the Company's estimate of costs reasonably expected to be incurred based on presently enacted laws and regulations, currently available facts, existing technology, and the Company's assessment of the likely remediation action to be taken. The Company expects that these remediation actions will be taken over the next several years and estimates that annual expenditures to be charged to these environmental accruals will be approximately \$3.0 to \$9.0 for the years 1996 through 2000 and an aggregate of approximately \$10.0 thereafter.

As additional facts are developed and definitive remediation plans and necessary regulatory approvals for implementation of remediation are established or alternative technologies are developed, changes in these and other factors may result in actual costs exceeding the current environmental accruals. The Company believes that it is

reasonably possible that costs associated with these environmental matters may exceed current accruals by amounts that could range, in the aggregate, up to an estimated \$23.0 and that the factors upon which a substantial portion of this estimate is based are expected to be resolved over the next twelve months. While uncertainties are inherent in the final outcome of these environmental matters, and it is presently impossible to determine the actual costs that ultimately may be incurred, management currently believes that the resolution of such uncertainties should not have a material adverse effect on the Company's consolidated financial position, results of operations, or liquidity.

Asbestos Contingencies

KACC is a defendant in a number of lawsuits, some of which involve claims of multiple persons, in which the plaintiffs allege that certain of their injuries were caused by, among other things, exposure to asbestos during, and as a result of, their employment or association with KACC or exposure to products containing asbestos produced or sold by KACC. The lawsuits generally relate to products KACC has not manufactured for at least 15 years.

The following table presents the changes in number of such claims pending for the years ended December 31, 1995, 1994, and 1993.

| | 1995 | 1994 | 1993 |
|-----------------------------------------|---------|----------|---------|
| Number of claims at beginning of period | 25,200 | 23,400 | 13,500 |
| Claims received | 41,700 | 14,300 | 11,400 |
| Claims settled or dismissed | (7,200) | (12,500) | (1,500) |
| Number of claims at end of period | 59,700 | 25,200 | 23,400 |

KACC has been advised by its regional counsel that, although there can be no assurance, the recent increase in pending claims may be attributable in part to tort reform legislation in Texas which was passed by the legislature in March 1995 and which became effective on September 1, 1995. The legislation, among other things, is designed to restrict, beginning September 1, 1995, the filing of cases in Texas that do not have a sufficient nexus to that jurisdiction, and to impose, generally as of September 1, 1996, limitations relating to joint and several liability in tort cases. A substantial portion of the asbestos-related claims that were filed and served on KACC between June 30, 1995, and November 30, 1995, were filed in Texas prior to September 1, 1995.

Based on past experience and reasonably anticipated future activity, the Company has established an accrual for estimated asbestos-related costs for claims filed and estimated to be filed and settled through 2008. There are inherent uncertainties involved in estimating asbestos-related costs, and the Company's actual costs could exceed these estimates. The Company's accrual was calculated based on the current and anticipated number of asbestos-related claims, the prior timing and amounts of asbestos-related payments, and the advice of Wharton, Levin, Ehrmantraut, Klein & Nash, P.A. with respect to the current state of the law related to asbestos claims. Accordingly, an asbestos-related cost accrual of \$160.1, before

consideration of insurance recoveries, is included primarily in Long-term liabilities at December 31, 1995. The Company estimates that annual future cash payments in connection with such litigation will be approximately \$13.0 to \$20.0 for each of the years 1996 through 2000, and an aggregate of approximately \$78.0 thereafter through 2008. While the Company does not presently believe there is a reasonable basis for estimating such costs beyond 2008 and, accordingly, no accrual has been recorded for such costs which may be incurred beyond 2008, there is a reasonable possibility that such costs may continue beyond 2008, and such costs may be substantial.

The Company believes that KACC has insurance coverage available to recover a substantial portion of its asbestos-related costs. Claims for recovery from some of KACC's insurance carriers are currently subject to pending litigation and other carriers have raised certain defenses, which have resulted in delays in recovering costs from the insurance carriers. The timing and amount of ultimate recoveries from these insurance carriers are dependent upon the resolution of these disputes. The Company believes, based on prior insurance-related recoveries in respect of asbestos-related claims, existing insurance policies, and the advice of Thelen, Marrin, Johnson & Bridges with respect to applicable insurance coverage law relating to the terms and conditions of those policies, that substantial recoveries from the insurance carriers are probable. Accordingly, an estimated aggregate insurance recovery of \$137.9, determined on the same basis as the asbestos-related cost accrual, is recorded primarily in Other assets at December 31, 1995.

While uncertainties are inherent in the final outcome of these asbestos matters and it is presently impossible to determine the actual costs that ultimately may be incurred and insurance recoveries that will be received, management currently believes that, based on the factors discussed in the preceding paragraphs, the resolution of asbestos-related uncertainties and the incurrence of asbestos-related costs net of related insurance recoveries should not have a material adverse effect on the Company's consolidated financial position, results of operations, or liquidity.

Other Contingencies

The Company or KACC is involved in various other claims, lawsuits, and other proceedings relating to a wide variety of matters. While uncertainties are inherent in the final outcome of such matters, and it is presently impossible to determine the actual costs that ultimately may be incurred, management currently believes that the resolution of such uncertainties and the incurrence of such costs should not have a material adverse effect on the Company's consolidated financial position, results of operations, or liquidity.

9. Derivative Financial Instruments and Related Hedging Programs

KACC enters into a number of financial instruments in the normal course of business that are designed to reduce its exposure to fluctuations in foreign exchange rates, alumina, primary aluminum, and fabricated aluminum products prices, and the cost of purchased commodities.

KACC has significant expenditures which are denominated in foreign currencies related to long-term purchase commitments with its affiliates in Australia and the United Kingdom, which expose KACC to certain exchange rate risks. In order to mitigate its exposure, KACC periodically enters into forward foreign exchange and currency option contracts in Australian dollars and Pounds Sterling to hedge these commitments. The forward foreign currency exchange contracts are agreements to purchase or sell a foreign currency, for a price specified at the contract date, with delivery and settlement in the future. At December 31, 1995, KACC had net forward foreign exchange contracts totaling approximately \$102.8 for the purchase of 142.4 Australian dollars through April 30, 1997.

KAISER ALUMINUM CORPORATION AND SUBSIDIARY COMPANIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

(In millions of dollars, except share amounts)

To mitigate its exposure to declines in the market prices of alumina, primary aluminum, and fabricated aluminum products, while retaining the ability to participate in favorable pricing environments that may materialize, KACC has developed strategies which include forward sales of primary aluminum at fixed prices and the purchase or sale of options for primary aluminum. Under the principal components of KACC's price risk management strategy, which can be modified at any time, (i) varying quantities of KACC's anticipated production are sold forward at fixed prices; (ii) call options are purchased to allow KACC to participate in certain higher market prices, should they materialize, for a portion of KACC's primary aluminum and alumina sold forward; (iii) option contracts are entered into to establish a price range KACC will receive for a portion of its primary aluminum and alumina; and (iv) put options are purchased to establish minimum prices KACC will receive for a portion of its primary aluminum and alumina. In this regard, in respect of its 1996 anticipated production, as of December 31, 1995, KACC had sold forward 15,750 metric tons of primary aluminum at fixed prices.

In addition, KACC enters into forward fixed price arrangements with certain customers which provide for the delivery of a specific quantity of fabricated aluminum products over a specified future period of time. In order to establish the cost of primary aluminum for a portion of such sales, KACC may enter into forward and option contracts. In this regard, at December 31, 1995 KACC had purchased 53,300 metric tons of primary aluminum under forward purchase contracts at fixed prices that expire at various times through December 1996.

At December 31, 1995, the net unrealized gain on KACC's position in aluminum forward sales and option contracts, based on an average price of \$1,721 per metric ton (\$.78 per pound) of aluminum, and forward foreign exchange contracts was \$4.1.

KACC is exposed to credit risk in the event of non-performance by other parties to these currency and commodity contracts, but KACC does not anticipate non-performance by any of these counterparties, given their creditworthiness. When appropriate, KACC arranges master netting agreements.

10. Segment and Geographical Area Information

Sales and transfers among geographic areas are made on a basis intended to reflect the market value of products.

The aggregate foreign currency gain included in determining net income was \$5.3, \$.8, and \$4.9 for the years ended December 31, 1995, 1994, and 1993, respectively.

Sales of more than 10% of total revenue to a single customer were nil in 1995 and were \$58.2 and \$40.7 of bauxite and alumina and \$147.7 and \$145.7 of aluminum processing for the years ended December 31, 1994, and 1993, respectively.

Export sales were less than 10% of total revenue during the years ended December 31, 1995, 1994, and 1993, respectively.

KAISER ALUMINUM CORPORATION AND SUBSIDIARY COMPANIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

(In millions of dollars, except share amounts)

Geographical area information relative to operations is summarized as follows:

| | Year Ended December 31, | Domestic | Caribbean | Africa | Other Foreign | Eliminations | Total |
|---------------------------------------------------------|----------------------------|-----------|-----------|----------|------------------|--------------|-----------|
| Net sales to unaffiliated customers | 1995 | \$1,589.5 | \$ 191.7 | \$ 239.4 | \$ 217.2 | | \$2,237.8 |
| | 1994 | 1,263.2 | 169.9 | 180.0 | 168.4 | | 1,781.5 |
| | 1993 | 1,177.8 | 155.4 | 207.5 | 178.4 | | 1,719.1 |
| Sales and transfers among geographic areas | 1995 | | \$ 79.6 | | \$ 191.5 | \$(271.1) | |
| | 1994 | | 98.7 | | 139.4 | (238.1) | |
| | 1993 | | 88.2 | | 79.6 | (167.8) | |
| Equity in income (losses) of unconsolidated affiliates | 1995 | \$ (.2) | | | \$ 19.4 | | \$ 19.2 |
| | 1994 | .2 | | | (2.1) | | (1.9) |
| | 1993 | | | | (3.3) | | (3.3) |
| Operating income (loss) | 1995 | \$ 32.0 | \$ 9.8 | \$ 83.5 | \$ 85.3 | | \$ 210.6 |
| | 1994 | (128.8) | 9.9 | 18.3 | 44.4 | | (56.2) |
| | 1993 | (145.9) | (11.8) | 21.9 | 12.4 | | (123.4) |
| Investment in and advances to unconsolidated affiliates | 1995 | \$ 1.2 | \$ 27.1 | | \$ 149.9 | | \$ 178.2 |
| | 1994 | 1.2 | 28.8 | | 139.7 | | 169.7 |
| Identifiable assets | 1995 | \$2,017.9 | \$ 381.9 | \$ 196.5 | \$ 216.9 | | \$2,813.2 |
| | 1994 | 1,933.8 | 364.8 | 200.0 | 199.5 | | 2,698.1 |

KAISER ALUMINUM CORPORATION AND SUBSIDIARY COMPANIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

(In millions of dollars, except share amounts)

Financial information by industry segment at December 31, 1995 and 1994, and for the years ended December 31, 1995, 1994, and 1993, is as follows:

| | Year Ended December 31, | Bauxite & Alumina | Aluminum Processing | Corporate | Total |
|-------------------------------------|----------------------------|----------------------|------------------------|-----------|-----------|
| Net sales to unaffiliated customers | 1995 | \$514.2 | \$1,723.6 | | \$2,237.8 |
| | 1994 | 432.5 | 1,349.0 | | 1,781.5 |
| | 1993 | 423.4 | 1,295.7 | | 1,719.1 |
| Intersegment sales | 1995 | \$159.7 | | | \$ 159.7 |
| | 1994 | 146.8 | | | 146.8 |
| | 1993 | 129.4 | | | 129.4 |

| | | | | | |
|-----------------------------------------------------------------------|------|----------|-----------|-----------|-----------|
| Equity in income (losses) of unconsolidated affiliates | 1995 | \$ 3.6 | \$ 15.8 | \$ (.2) | \$ 19.2 |
| | 1994 | (4.7) | 2.6 | .2 | (1.9) |
| | 1993 | (2.5) | (.8) | | (3.3) |
| Operating income (loss) | 1995 | \$ 54.0 | \$ 238.9 | \$ (82.3) | \$ 210.6 |
| | 1994 | 19.8 | (8.4) | (67.6) | (56.2) |
| | 1993 | (4.5) | (46.3) | (72.6) | (123.4) |
| Effect of changes in accounting principles on operating income (loss) | | | | | |
| SFAS 106 | 1993 | \$ (2.0) | \$ (16.1) | \$ (1.1) | \$ (19.2) |
| SFAS 109 | 1993 | (7.7) | (7.8) | .3 | (15.2) |
| Depreciation | 1995 | \$ 31.1 | \$ 60.4 | \$ 2.8 | \$ 94.3 |
| | 1994 | 33.5 | 59.1 | 2.8 | 95.4 |
| | 1993 | 35.3 | 59.9 | 1.9 | 97.1 |
| Capital expenditures | 1995 | \$ 27.3 | \$ 44.0 | \$ 8.1 | \$ 79.4 |
| | 1994 | 28.9 | 39.9 | 1.2 | 70.0 |
| | 1993 | 35.3 | 31.2 | 1.2 | 67.7 |
| Investment in and advances to unconsolidated affiliates | 1995 | \$129.9 | \$ 47.1 | \$ 1.2 | \$ 178.2 |
| | 1994 | 136.6 | 31.9 | 1.2 | 169.7 |
| Identifiable assets | 1995 | \$746.0 | \$1,341.2 | \$ 726.0 | \$2,813.2 |
| | 1994 | 749.6 | 1,242.3 | 706.2 | 2,698.1 |

56

KAISER ALUMINUM CORPORATION AND SUBSIDIARY COMPANIES

FIVE-YEAR FINANCIAL DATA
CONSOLIDATED BALANCE SHEETS

| (In millions of dollars) | December 31, | | | | |
|---------------------------------------------------------------------|------------------|------------------|------------------|------------------|------------------|
| | 1995 | 1994 | 1993 | 1992 | 1991 |
| Assets | | | | | |
| Current assets: | | | | | |
| Cash and cash equivalents | \$ 21.9 | \$ 17.6 | \$ 14.7 | \$ 19.1 | \$ 15.8 |
| Receivables | 308.6 | 199.2 | 234.7 | 270.0 | 218.8 |
| Inventories | 525.7 | 468.0 | 426.9 | 439.9 | 498.6 |
| Prepaid expenses and other current assets | 76.6 | 158.0 | 60.7 | 37.0 | 84.0 |
| Total current assets | 932.8 | 842.8 | 737.0 | 766.0 | 817.2 |
| Investments in and advances to unconsolidated affiliates | 178.2 | 169.7 | 183.2 | 150.1 | 161.9 |
| Property, plant, and equipment - net | 1,109.6 | 1,133.2 | 1,163.7 | 1,066.8 | 1,014.5 |
| Deferred income taxes | 269.1 | 271.2 | 210.8 | | |
| Other assets | 323.5 | 281.2 | 233.2 | 189.7 | 140.5 |
| Total | \$2,813.2 | \$2,698.1 | \$2,527.9 | \$2,172.6 | \$2,134.1 |
| Liabilities and Stockholders' Equity | | | | | |
| Current liabilities: | | | | | |
| Accounts payable and accruals | \$ 451.2 | \$ 439.3 | \$ 339.7 | \$ 351.4 | \$ 461.6 |
| Accrued postretirement medical benefit obligation - current portion | 46.8 | 47.0 | 47.6 | | |
| Payable to affiliates | 94.2 | 85.3 | 62.4 | 78.4 | 87.1 |
| Long-term debt - current portion | 8.9 | 11.5 | 8.7 | 25.9 | 26.3 |
| Total current liabilities | 601.1 | 583.1 | 458.4 | 455.7 | 575.0 |
| Long-term liabilities | 548.5 | 495.5 | 501.8 | 281.7 | 212.9 |
| Accrued postretirement medical benefit obligation | 734.0 | 734.9 | 713.1 | | |
| Long-term debt | 749.2 | 751.1 | 720.2 | 765.1 | 681.5 |
| Minority interests | 122.7 | 116.2 | 105.0 | 104.9 | 108.9 |
| Stockholders' equity: | | | | | |
| Preferred stock | .4 | .6 | .2 | | |
| Common stock | .7 | .6 | .6 | .6 | .6 |
| Additional capital | 530.3 | 527.8 | 425.9 | 288.5 | 287.9 |

| | | | | | |
|-----------------------------------------|-----------|-----------|-----------|-----------|-----------|
| Retained earnings (accumulated deficit) | (459.9) | (502.6) | (375.7) | 282.8 | 267.3 |
| Additional minimum pension liability | (13.8) | (9.1) | (21.6) | (6.7) | |
| | ----- | ----- | ----- | ----- | ----- |
| Total stockholders' equity | 57.7 | 17.3 | 29.4 | 565.2 | 555.8 |
| | ----- | ----- | ----- | ----- | ----- |
| Total | \$2,813.2 | \$2,698.1 | \$2,527.9 | \$2,172.6 | \$2,134.1 |
| | ===== | ===== | ===== | ===== | ===== |
| Debt-to-capital ratio(1) | 78.1 | 82.4 | 81.3 | 54.1 | 51.5 |

(1) Total long-term debt - current portion and long-term debt ("debt") as a ratio of total debt, deferred income tax liabilities, minority interests, and stockholders' equity.

57

KAISER ALUMINUM CORPORATION AND SUBSIDIARY COMPANIES

FIVE-YEAR FINANCIAL DATA
STATEMENTS OF CONSOLIDATED INCOME (LOSS)

| (In millions of dollars, except share amounts) | Year Ended December 31, | | | | |
|--------------------------------------------------------------------------------------------------------------------------------------------|-------------------------|------------|------------|-----------|-----------|
| | 1995 | 1994 | 1993 | 1992 | 1991 |
| ----- | ----- | ----- | ----- | ----- | ----- |
| Net sales | \$2,237.8 | \$1,781.5 | \$1,719.1 | \$1,909.1 | \$2,000.8 |
| | ----- | ----- | ----- | ----- | ----- |
| Costs and expenses: | | | | | |
| Cost of products sold | 1,798.4 | 1,625.5 | 1,587.7 | 1,619.3 | 1,594.2 |
| Depreciation | 94.3 | 95.4 | 97.1 | 80.3 | 73.2 |
| Selling, administrative, research and development, and general | 134.5 | 116.8 | 121.9 | 119.6 | 117.4 |
| Restructuring of operations | | | 35.8 | | |
| | ----- | ----- | ----- | ----- | ----- |
| Total costs and expenses | 2,027.2 | 1,837.7 | 1,842.5 | 1,819.2 | 1,784.8 |
| | ----- | ----- | ----- | ----- | ----- |
| Operating income (loss) | 210.6 | (56.2) | (123.4) | 89.9 | 216.0 |
| Other income (expense): | | | | | |
| Interest expense | (93.9) | (88.6) | (84.2) | (78.7) | (93.9) |
| Other - net | (14.1) | (7.3) | (.9) | 20.9 | 20.3 |
| | ----- | ----- | ----- | ----- | ----- |
| Income (loss) before income taxes, minority interests, extraordinary loss, and cumulative effect of changes in accounting principles | 102.6 | (152.1) | (208.5) | 32.1 | 142.4 |
| (Provision) credit for income taxes | (37.2) | 53.8 | 86.9 | (5.3) | (32.4) |
| Minority interests | (5.1) | (3.1) | (1.5) | .1 | (1.6) |
| | ----- | ----- | ----- | ----- | ----- |
| Income (loss) before extraordinary loss and cumulative effect of changes in accounting principles | 60.3 | (101.4) | (123.1) | 26.9 | 108.4 |
| Extraordinary loss on early extinguishment of debt, net of tax benefit of \$2.9 and \$11.2 for 1994 and 1993, respectively | | (5.4) | (21.8) | | |
| Cumulative effect of changes in accounting principles, net of tax benefit of \$237.7 | | | (507.3) | | |
| | ----- | ----- | ----- | ----- | ----- |
| Net income (loss) | \$ 60.3 | \$ (106.8) | \$ (652.2) | \$ 26.9 | \$ 108.4 |
| | ===== | ===== | ===== | ===== | ===== |
| Per common and common equivalent share: | | | | | |
| Net income (loss): | | | | | |
| Primary | \$.69 | \$ (2.18) | \$ (11.47) | \$.47 | \$ 2.03 |
| Fully diluted | .72 | | | | |
| Dividends declared | | | | .20 | 1.10 |

58

KAISER ALUMINUM CORPORATION AND SUBSIDIARY COMPANIES

QUARTERLY FINANCIAL DATA (UNAUDITED)

| (In millions of dollars, except share amounts) | Quarter Ended | | | |
|---------------------------------------------------------|---------------|----------|--------------|--------------|
| | March 31 | June 30 | September 30 | December 31, |
| 1995 | | | | |
| Net sales | \$ 513.0 | \$ 583.4 | \$ 550.3 | \$ 591.1 |
| Operating income | 32.6 | 63.6 | 53.2 | 61.2 |
| Net income | 3.5 | 23.3 | 12.5 | 21.0 |
| Earnings (loss) per common and common equivalent share: | | | | |
| Primary | (.03) (1) | .31 | .13 | .26 |
| Fully diluted | | | .14 | |
| Common stock market price: | | | | |
| High | 11-7/8 | 14 | 21 | 15-3/4 |
| Low | 10-1/8 | 10-1/2 | 13-7/8 | 10-3/4 |
| 1994 | | | | |
| Net sales | \$ 415.1 | \$ 459.5 | \$ 461.1 | \$ 445.8 |
| Operating loss | 25.6 | 14.2 | 6.9 | 9.5 |
| Loss before extraordinary loss | 29.3 | 23.6 | 20.8 | 27.7 (2) |
| Extraordinary loss - net | 5.4 | | | |
| Net loss | 34.7 | 23.6 | 20.8 | 27.7 (2) |
| Per common and common equivalent share: | | | | |
| Loss before extraordinary loss | .58 | .50 | .45 | .57 |
| Extraordinary loss - net | .09 | | | |
| Net loss | .67 | .50 | .45 | .57 |
| Common stock market price: | | | | |
| High | 12-1/2 | 10-1/2 | 11-5/8 | 12-3/8 |
| Low | 9 | 8-1/4 | 9-1/2 | 9-3/4 |

- (1) After deduction of \$5.3 dividends on preferred stock from net income.
- (2) Includes pre-tax charges of approximately \$10.3, principally related to establishing additional litigation and environmental reserves in the fourth quarter of 1994.

KAISER ALUMINUM CORPORATION AND SUBSIDIARY COMPANIES

CORPORATE INFORMATION

KAISER ALUMINUM CORPORATION

Directors

George T. Haymaker, Jr.
Chairman and Chief Executive Officer

Charles E. Hurwitz
Chairman, President, and Chief Executive Officer,
MAXXAM Inc.,
Chairman and Chief Executive Officer,
Federated Development Company

Robert J. Cruikshank
Personal Investments

Ezra G. Levin
Partner in the law firm of Kramer, Levin, Naftalis,
Nessen, Kamin & Frankel

Robert Marcus
Former President and Chief Executive Officer,
Alumax Inc.

Robert J. Petris
Assistant to the International President of the
United Steelworkers of America

KAISER ALUMINUM & CHEMICAL CORPORATION

Directors

George T. Haymaker, Jr.
Charles E. Hurwitz
Robert J. Cruikshank
Ezra G. Levin
Robert Marcus
Robert J. Petris

Corporate Officers and Business Managers

George T. Haymaker, Jr.
Chairman and Chief Executive
Charles E. Hurwitz
Vice Chairman
Joseph A. Bonn
Vice President, Planning and Administration
Robert E. Cole
Vice President, Government Affairs
John E. Daniel

Corporate Officers

George T. Haymaker, Jr.
Chairman and Chief Executive Officer
Joseph A. Bonn
Vice President, Planning and Administration
Arthur S. Donaldson
Controller
John T. La Duc
Vice President and Chief Financial Officer
Anthony R. Pierno
Vice President and General Counsel
Karen A. Twitchell
Treasurer
Byron L. Wade
Vice President, Secretary, and Deputy General Counsel

Vice President, and President of Kaiser Primary Aluminum
Products
Arthur S. Donaldson
Controller
Robert W. Irelan
Vice President, Public Relations
John T. La Duc
Vice President and Chief Financial Officer
Alan G. Longmuir
Vice President, Research & Development
Raymond J. Milchovich
Vice President, and President of Kaiser Flat-Rolled
Products
James T. Owen
Vice President, and President of Kaiser Extruded Products
Anthony R. Pierno
Vice President and General Counsel
Geoffrey W. Smith
Vice President, and President of Kaiser Alumina
Karen A. Twitchell
Treasurer
Kris S. Vasani
Vice President, Financial Risk Management
Byron L. Wade
Vice President, Secretary, and Deputy General Counsel
Lawrence L. Watts
Vice President, and President of Kaiser Aluminum
International

KAISER ALUMINUM CORPORATION AND SUBSIDIARY COMPANIES

CORPORATE INFORMATION

Kaiser Aluminum Corporation

5847 San Felipe, Suite 2600 (Zip 77057-3010)
P.O. Box 572887 (Zip 77257-2887)
Houston, TX
713/267-3777
Internet at: <http://www.kaiseral.com>

Auditors

Arthur Andersen LLP
711 Louisiana, Suite 1300
Houston, TX 77002

Stockholder Matters

Kaiser Aluminum Corporation stock is traded on the
New York Stock Exchange. Ticker symbols are KLU for
the Common Stock; and KLUPrD for the 8.255%
PRIDES, Convertible Preferred Stock.

Agents and Trustees

The First National Bank of Boston
c/o Boston EquiServe
P.O. Box 644, Mail Stop 45-02-09
Boston, MA 02102-0644
617-575-3400

The Company's Annual Report on Form 10-K as filed
with the Securities and Exchange Commission is
available, without charge, on written request. In
addition, a copy of the exhibits to the Form 10-K is
available upon payment of a specified fee, which fee
shall be limited to the Company's expenses in
furnishing such exhibit(s). All requests should be
directed to:

Transfer Agent and Registrar for Kaiser
Aluminum Corporation Common Stock and
8.255% PRIDES, Convertible Preferred Stock

State Street Bank and Trust Company
Corporate Trust Customer Service Dept.
P. O. Box 778
Boston, MA 02102
800-531-0368
Trustee for Kaiser Aluminum & Chemical Corporation
12-3/4% Senior Subordinated Notes due 2003

Kaiser Aluminum Corporation

Shareholder Services
P.O. Box 572887
Houston, TX 77257-2887

First Trust National Association
180 E. 5th Street
St. Paul, MN 55101
612/244-0444

Trustee for Kaiser Aluminum & Chemical
Corporation 9-7/8% Senior Notes

This annual report is printed on recycled paper. Additionally, the report uses vegetable-oil inks that release fewer volatile gases into the atmosphere than regular oil-based inks, that contain no heavy metals, and that are not a health threat during printing operations.

KAISER ALUMINUM & CHEMICAL CORPORATION, as Issuer,

KAISER ALUMINA AUSTRALIA CORPORATION,
ALPART JAMAICA INC.,
KAISER JAMAICA CORPORATION,
KAISER FINANCE CORPORATION,
KAISER MICROMILL HOLDINGS, LLC,
KAISER SIERRA MICROMILLS, LLC,
KAISER TEXAS SIERRA MICROMILLS, LLC, and
KAISER TEXAS MICROMILL HOLDINGS, LLC, as
Subsidiary Guarantors

and

STATE STREET BANK AND TRUST COMPANY, as Trustee

SECOND SUPPLEMENTAL INDENTURE

Dated as of February 1, 1996

to

INDENTURE

Dated As of February 1, 1993

12 % Senior Subordinated Notes due 2003

SECOND SUPPLEMENTAL INDENTURE, dated as of February 1, 1996, between KAISER ALUMINUM & CHEMICAL CORPORATION, a Delaware corporation (the "Company"), as Issuer, KAISER ALUMINA AUSTRALIA CORPORATION, a Delaware corporation ("KAAC"), ALPART JAMAICA INC., a Delaware corporation ("AJI"), KAISER JAMAICA CORPORATION, a Delaware corporation ("KJC"), KAISER FINANCE CORPORATION, a Delaware corporation ("Kaiser Finance"), KAISER MICROMILL HOLDINGS, LLC, a Delaware limited liability company ("KMH"), KAISER SIERRA MICROMILLS, LLC, a Delaware limited liability company ("KSM"), KAISER TEXAS SIERRA MICROMILLS, LLC, a Texas limited liability company ("Texas Sierra"), and KAISER TEXAS MICROMILL HOLDINGS, LLC, a Texas limited liability company ("Texas Holdings"), as Subsidiary Guarantors, and State Street Bank and Trust Company (as successor to The First National Bank of Boston), a Massachusetts trust company, as Trustee (the "Trustee").

WHEREAS, the Company, KAAC, AJI, KJC and The First National Bank of Boston executed an Indenture, dated as of February 1, 1993 (the "Original Indenture"), in respect of \$400,000,000 aggregate principal amount of the Company's 12 % Senior Subordinated Notes due 2003 (the "Securities"), and the Original Indenture was amended by a First Supplemental Indenture, dated as of May 1, 1993 (the Original Indenture, as amended by such First Supplemental Indenture being hereinafter referred to as the "Indenture"), executed by the Company, KAAC, AJI, KJC and Kaiser Finance;

WHEREAS, State Street Bank and Trust Company is the successor to The First National Bank of Boston, as Trustee under the Indenture;

WHEREAS, Section 5.12 of the Indenture requires, under circumstances specified in Section 5.12, that the Company shall cause certain Subsidiaries of the Company to execute and deliver

to the Trustee a supplemental indenture in form and substance satisfactory to the Trustee pursuant to which such Subsidiaries of the Company shall be named as additional Subsidiary Guarantors; and

WHEREAS, all conditions and requirements necessary to make this Second Supplemental Indenture a valid, binding and legal instrument in accordance with its terms have been performed and fulfilled and the execution and delivery hereof have been in all respects duly authorized.

NOW, THEREFORE, in consideration of the above premises, each party agrees, for the benefit of the other and for the equal and ratable benefit of the Holders of the Securities, as follows:

ARTICLE I

AMENDMENTS

Section 1. The Company, KAAC, AJI, KJC, Kaiser Finance, KMH, KSM, Texas Sierra, Texas Holdings and the Trustee hereby amend the Indenture and agree that each of KMH, KSM, Texas Sierra and Texas Holdings shall be a Subsidiary Guarantor for all purposes under the Indenture and the term "Subsidiary Guarantor" shall for all purposes under the Indenture specifically include each of KMH, KSM, Texas Sierra and Texas Holdings.

ARTICLE II

MISCELLANEOUS PROVISIONS

Section 2.1. Terms Defined. For all purposes of this Second Supplemental Indenture, except as otherwise defined or unless the context otherwise requires, terms used in capitalized form in this Second Supplemental Indenture and defined in the Indenture have the meanings specified in the Indenture.

Section 2.2. Indenture. Except as amended hereby, the Indenture and the Securities are in all respects ratified and confirmed and all their terms shall remain in full force and effect.

Section 2.3. Governing Law. This Second Supplemental Indenture shall be deemed to be a contract made under the laws of the State of New York, and for all purposes shall be governed by and construed in accordance with the laws of said state without regard to the principles of the conflict of laws provisions thereof.

Section 2.4. Successors and Assigns. All agreements of the Company, KAAC, AJI, KJC, Kaiser Finance, KMH, KSM, Texas Sierra and Texas Holdings in this Second Supplemental Indenture and the Securities shall bind its successors and assigns.

Section 2.5. Multiple Counterparts. This Second Supplemental Indenture may be executed in any number of counterparts, each of which shall be an original; but such counterparts shall together constitute but one and the same instrument.

Section 2.6. Effectiveness. The provisions of this Second Supplemental Indenture shall become effective immediately upon its execution and delivery by the Trustee in accordance with the provisions of Article Eleven of the Indenture.

Section 2.7. Trustee Disclaimer. The Trustee accepts the amendment of the Indenture effected by this Second Supplemental Indenture and agrees to execute the trust created by the Indenture as hereby amended, but only upon the terms and conditions set forth in the Indenture, including the terms and provisions defining and limiting the liabilities and

responsibilities of the Trustee, which terms and provisions shall in like manner define and limit its liabilities and responsibilities in the performance of the trust created by the Indenture as hereby amended, and, without limiting the generality of the foregoing, the Trustee shall not be responsible in any manner whatsoever for or with respect to any of the recitals or statements contained herein, all of which recitals or statements are made solely by the Company, KAAC, AJI, KJC, Kaiser Finance, KMH, KSM, Texas Sierra and Texas Holdings, or for or with respect to (i) the validity, efficacy or sufficiency of this Second Supplemental Indenture or any of the terms or provisions hereof, (ii) the proper authorization hereof by the Company, KAAC, AJI, KJC, Kaiser Finance, KMH, KSM, Texas Sierra and Texas Holdings by corporate action or limited liability company action or otherwise, (iii) the due execution hereof by the Company, KAAC, AJI, KJC, Kaiser Finance, KMH, KSM, Texas Sierra and Texas Holdings or (iv) the consequences (direct or indirect and whether deliberate or inadvertent) of any amendment herein provided for, and the Trustee makes no representation with respect to any such matters.

[Remainder of Page Intentionally Blank]

SIGNATURES

IN WITNESS WHEREOF, the parties hereto have caused this Second Supplemental Indenture to be duly executed, all as of the date first written above.

KAISER ALUMINUM & CHEMICAL CORPORATION, as Issuer

By: _____
Name: John T. La Duc
Title: Vice President and Chief Financial Officer

Dated: February 1, 1996

Attest: By: _____
Name: Byron L. Wade
Title: Secretary

KAISER ALUMINA AUSTRALIA CORPORATION, as a Subsidiary Guarantor

By: _____
Name: John T. La Duc
Title: Vice President and Chief Financial Officer

Dated: February 1, 1996

Attest: By: _____
Name: Byron L. Wade
Title: Secretary

ALPART JAMAICA INC., as a Subsidiary Guarantor

By: _____
Name: John T. La Duc

Title: Vice President and
Chief Financial Officer

Dated: February 1, 1996

Attest: By: _____
Name: Byron L. Wade
Title: Secretary

-3-

KAISER JAMAICA CORPORATION,
as a Subsidiary Guarantor

By: _____
Name: John T. La Duc
Title: Vice President and
Chief Financial Officer

Dated: February 1, 1996

Attest: By: _____
Name: Byron L. Wade
Title: Secretary

KAISER FINANCE CORPORATION,
as a Subsidiary Guarantor

By: _____
Name: John T. La Duc
Title: Vice President and
Chief Financial Officer

Dated: February 1, 1996

Attest: By: _____
Name: Byron L. Wade
Title: Secretary

KAISER MICROMILL HOLDINGS, LLC,
as a Subsidiary Guarantor

By: _____
Name: John T. La Duc
Title: Manager

Dated: February 1, 1996

Attest: By: _____
Name: Anthony R. Pierno
Title: Manager

-4-

KAISER SIERRA MICROMILLS, LLC,
as a Subsidiary Guarantor

By: _____
Name: John T. La Duc
Title: Vice President and
Chief Financial Officer

Dated: February 1, 1996

Attest: By: _____
Name: Byron L. Wade
Title: Secretary

KAISER TEXAS SIERRA MICROMILLS,
LLC,
as a Subsidiary Guarantor

By: _____
Name: John T. La Duc
Title: Vice President and
Chief Financial Officer

Dated: February 1, 1996

Attest: By: _____
Name: Byron L. Wade
Title: Secretary

KAISER TEXAS MICROMILL HOLDINGS,
LLC,
as a Subsidiary Guarantor

By: _____
Name: John T. La Duc
Title: Vice President and
Chief Financial Officer

Dated: February 1, 1996

Attest: By: _____
Name: Byron L. Wade
Title: Secretary

-5-

STATE STREET BANK AND TRUST
COMPANY, as Trustee

By: _____
Name:
Title:

Dated: February 1, 1996

Attest: By: _____
Name:
Title:

KAISER ALUMINUM & CHEMICAL CORPORATION, as Issuer,

KAISER ALUMINA AUSTRALIA CORPORATION,
ALPART JAMAICA INC.,
KAISER JAMAICA CORPORATION,
KAISER FINANCE CORPORATION,
KAISER MICROMILL HOLDINGS, LLC,
KAISER SIERRA MICROMILLS, LLC,
KAISER TEXAS SIERRA MICROMILLS, LLC, and
KAISER TEXAS MICROMILL HOLDINGS, LLC, as
Subsidiary Guarantors

and

FIRST NATIONAL TRUST ASSOCIATION, as Trustee

FIRST SUPPLEMENTAL INDENTURE

Dated as of February 1, 1996

to

INDENTURE

Dated As of February 17, 1994

9-7/8% Senior Notes due 2002

FIRST SUPPLEMENTAL INDENTURE, dated as of February 1, 1996, between KAISER ALUMINUM & CHEMICAL CORPORATION, a Delaware corporation (the "Company"), as Issuer, KAISER ALUMINA AUSTRALIA CORPORATION, a Delaware corporation ("KAAC"), ALPART JAMAICA INC., a Delaware corporation ("AJI"), KAISER JAMAICA CORPORATION, a Delaware corporation ("KJC"), KAISER FINANCE CORPORATION, a Delaware corporation ("Kaiser Finance"), KAISER MICROMILL HOLDINGS, LLC, a Delaware limited liability company ("KMH"), KAISER SIERRA MICROMILLS, LLC, a Delaware limited liability company ("KSM"), KAISER TEXAS SIERRA MICROMILLS, LLC, a Texas limited liability company ("Texas Sierra"), and KAISER TEXAS MICROMILL HOLDINGS, LLC, a Texas limited liability company ("Texas Holdings"), as Subsidiary Guarantors, and First National Trust Association, a national banking association, as Trustee (the "Trustee").

WHEREAS, the Company, KAAC, AJI, KJC, Kaiser Finance and the Trustee executed an Indenture, dated as of February 17, 1994 (the "Indenture"), in respect of \$225,000,000 aggregate principal amount of the Company's 9-7/8% Senior Notes due 2002 (the "Securities").

WHEREAS, Section 4.12 of the Indenture requires, under circumstances specified in Section 4.12, that the Company shall cause certain Subsidiaries of the Company to execute and deliver to the Trustee a supplemental indenture in form and substance satisfactory to the Trustee pursuant to which such Subsidiaries of the Company shall be named as additional Subsidiary Guarantors; and

WHEREAS, all conditions and requirements necessary to make this First Supplemental Indenture a valid, binding and legal instrument in accordance with its terms have been performed and fulfilled and the execution and delivery hereof have been in all respects duly authorized.

NOW, THEREFORE, in consideration of the above premises, each party agrees, for the benefit of the other and for the equal and ratable benefit of the Holders of the Securities, as follows:

ARTICLE I

AMENDMENTS

Section 1. The Company, KAAC, AJI, KJC, Kaiser Finance, KMH, KSM, Texas Sierra, Texas Holdings and the Trustee hereby amend the Indenture and agree that each of KMH, KSM, Texas Sierra and Texas Holdings shall be a Subsidiary Guarantor for all purposes under the Indenture and the term "Subsidiary Guarantor" shall for all purposes under the Indenture specifically include each of KMH, KSM, Texas Sierra and Texas Holdings.

ARTICLE II

MISCELLANEOUS PROVISIONS

Section 2.1. Terms Defined. For all purposes of this First Supplemental Indenture, except as otherwise defined or unless the context otherwise requires, terms used in capitalized form in this First Supplemental Indenture and defined in the Indenture have the meanings specified in the Indenture.

Section 2.2. Indenture. Except as amended hereby, the Indenture and the Securities are in all respects ratified and confirmed and all their terms shall remain in full force and effect.

Section 2.3. Governing Law. This First Supplemental Indenture shall be deemed to be a contract made under the laws of the State of New York, and for all purposes shall be governed by and construed in accordance with the laws of said state without regard to the principles of the conflict of laws provisions thereof.

Section 2.4. Successors and Assigns. All agreements of the Company, KAAC, AJI, KJC, Kaiser Finance, KMH, KSM, Texas Sierra and Texas Holdings in this First Supplemental Indenture and the Securities shall bind its successors and assigns.

Section 2.5. Multiple Counterparts. This First Supplemental Indenture may be executed in any number of counterparts, each of which shall be an original; but such counterparts shall together constitute but one and the same instrument.

Section 2.6. Effectiveness. The provisions of this First Supplemental Indenture shall become effective immediately upon its execution and delivery by the Trustee in accordance with the provisions of Article Ten of the Indenture.

Section 2.7. Trustee Disclaimer. The Trustee accepts the amendment of the Indenture effected by this First Supplemental Indenture and agrees to execute the trust created by the Indenture as hereby amended, but only upon the terms and conditions set forth in the Indenture, including the terms and provisions defining and limiting the liabilities and responsibilities of the Trustee, which terms and provisions shall in like manner define and limit its liabilities and responsibilities in the performance of the trust created by the Indenture as hereby amended, and, without limiting the generality of the foregoing, the Trustee shall not be responsible in any manner whatsoever for or with respect to any of the recitals or statements contained herein, all of which recitals or statements are made solely by the Company, KAAC, AJI, KJC, Kaiser Finance, KMH, KSM, Texas Sierra and Texas Holdings, or for or with respect to (i) the validity, efficacy or sufficiency of this First Supplemental Indenture or any of the terms or provisions hereof, (ii) the proper authorization hereof by the Company, KAAC, AJI,

KJC, Kaiser Finance, KMH, KSM, Texas Sierra and Texas Holdings by corporate action or limited liability company action or otherwise, (iii) the due execution hereof by the Company, KAAC, AJI, KJC, Kaiser Finance, KMH, KSM, Texas Sierra and Texas Holdings or (iv) the consequences (direct or indirect and whether deliberate or inadvertent) of any amendment herein provided for, and the Trustee makes no representation with respect to any such matters.

[Remainder of Page Intentionally Blank]

-2-

SIGNATURES

IN WITNESS WHEREOF, the parties hereto have caused this First Supplemental Indenture to be duly executed, all as of the date first written above.

KAISER ALUMINUM & CHEMICAL
CORPORATION, as Issuer

By: _____
Name: John T. La Duc
Title: Vice President and
Chief Financial Officer

Dated: February 1, 1996

Attest: By: _____
Name: Byron L. Wade
Title: Secretary

KAISER ALUMINA AUSTRALIA
CORPORATION, as a Subsidiary
Guarantor

By: _____
Name: John T. La Duc
Title: Vice President and
Chief Financial Officer

Dated: February 1, 1996

Attest: By: _____
Name: Byron L. Wade
Title: Secretary

ALPART JAMAICA INC.,
as a Subsidiary Guarantor

By: _____
Name: John T. La Duc
Title: Vice President and
Chief Financial Officer

Dated: February 1, 1996

Attest: By: _____
Name: Byron L. Wade
Title: Secretary

-3-

KAISER JAMAICA CORPORATION,
as a Subsidiary Guarantor

By: _____
Name: John T. La Duc
Title: Vice President and
Chief Financial Officer

Dated: February 1, 1996

Attest: By: _____
Name: Byron L. Wade
Title: Secretary

KAISER FINANCE CORPORATION,
as a Subsidiary Guarantor

By: _____
Name: John T. La Duc
Title: Vice President and
Chief Financial Officer

Dated: February 1, 1996

Attest: By: _____
Name: Byron L. Wade
Title: Secretary

KAISER MICROMILL HOLDINGS, LLC,
as a Subsidiary Guarantor

By: _____
Name: John T. La Duc
Title: Manager

Dated: February 1, 1996

Attest: By: _____
Name: Anthony R. Pierno
Title: Manager

-4-

KAISER SIERRA MICROMILLS, LLC,
as a Subsidiary Guarantor

By: _____
Name: John T. La Duc
Title: Vice President and
Chief Financial Officer

Dated: February 1, 1996

Attest: By: _____
Name: Byron L. Wade
Title: Secretary

KAISER TEXAS SIERRA MICROMILLS,
LLC,
as a Subsidiary Guarantor

By: _____
Name: John T. La Duc
Title: Vice President and
Chief Financial Officer

Dated: February 1, 1996

Attest: By: _____
Name: Byron L. Wade
Title: Secretary

KAISER TEXAS MICROMILL HOLDINGS,
LLC,
as a Subsidiary Guarantor

By: _____
Name: John T. La Duc
Title: Vice President and
Chief Financial Officer

Dated: February 1, 1996

Attest: By: _____
Name: Byron L. Wade
Title: Secretary

-5-

FIRST NATIONAL TRUST ASSOCIATION,
as Trustee

By: _____
Name:
Title:

Dated: February 1, 1996

Attest: By: _____
Name:
Title:

-6-

CERTIFICATE OF RETIREMENT
OF
KAISER ALUMINUM CORPORATION,
A DELAWARE CORPORATION,
UNDER
SECTION 243 OF THE GENERAL CORPORATION LAW OF DELAWARE

In accordance with Section 243 of the General Corporation Law of the State of Delaware, Kaiser Aluminum Corporation (the "Corporation"), a Delaware corporation, DOES HEREBY CERTIFY:

FIRST: That the Corporation has redeemed and retired one million, nine hundred thirty-eight thousand, two hundred ninety-five (1,938,295) shares of the Series A Mandatory Conversion Premium Dividend Preferred Stock, par value \$.05 per share, of the Corporation outstanding on September 19, 1995, which constituted all of the authorized shares of the Series A Mandatory Conversion Premium Dividend Preferred Stock of the Corporation.

SECOND: That the Certificate of Designations of Series A Mandatory Conversion Premium Dividend Preferred Stock of Kaiser Aluminum Corporation prohibits the reissuance of the shares of Series A Mandatory Conversion Premium Dividend Preferred Stock as shares of Series A Mandatory Conversion Premium Dividend Preferred Stock when so retired, but provides that such retired shares shall resume the status of authorized but unissued shares of Preferred Stock, par value \$.05 per share, of the Corporation, without designation as to series or class, and that such shares may thereafter be issued, but not as shares of Series A Mandatory Conversion Premium Dividend Preferred Stock.

THIRD: That when this Certificate of Retirement becomes effective in accordance with Section 103 of the General Corporation Law of the State of Delaware, it shall have the effect of amending the Restated Certificate of Incorporation of the Corporation so as to eliminate from the Restated Certificate of Incorporation of the Corporation all reference to the Series A Mandatory Conversion Premium Dividend Preferred Stock.

IN WITNESS WHEREOF, the Corporation has caused this Certificate of Retirement to be signed by Anthony R. Pierno, a Vice President, and attested by Byron L. Wade, its Secretary, this 24th day of October, 1995.

Anthony R. Pierno
Vice President

ATTEST:

Byron L. Wade
Secretary

[Corporate Seal]

FIFTH AMENDMENT TO CREDIT AGREEMENT

THIS FIFTH AMENDMENT TO CREDIT AGREEMENT (this "Amendment"), dated as of December 11, 1995, is by and between

KAISER ALUMINUM & CHEMICAL CORPORATION, a Delaware corporation (the "Company"), KAISER ALUMINUM CORPORATION, a Delaware

corporation (the "Parent Guarantor"), the various financial

institutions that are or may from time to time become parties to the Credit Agreement referred to below (collectively, the "Lenders" and, individually, a "Lender"), and BANKAMERICA

BUSINESS CREDIT, INC., a Delaware corporation, as agent (in such capacity, together with its successors and assigns in such capacity, the "Agent") for the Lenders. Capitalized terms used,

but not defined, herein shall have the meanings given to such terms in the Credit Agreement, as amended hereby.

W I T N E S S E T H:

WHEREAS, the Company, the Parent Guarantor, the Lenders and the Agent are parties to the Credit Agreement, dated as of February 15, 1994, as amended by the First Amendment to Credit Agreement, dated as of July 21, 1994, the Second Amendment to Credit Agreement, dated as of March 10, 1995, the Third Amendment to Credit Agreement and Acknowledgement, dated as of July 20, 1995, and the Fourth Amendment to Credit Agreement, dated as of October 17, 1995 (the "Credit Agreement"); and

WHEREAS, the parties hereto have agreed to amend the Credit Agreement as herein provided;

NOW, THEREFORE, the parties hereto agree as follows:

Section 1. Amendments to Credit Agreement.

1.1 Amendment to Article I: Definitions.

A. The definition of "Joint Venture Affiliate" contained in Section 1.1 of the Credit Agreement is hereby

amended by inserting the phrase "Guizhou Kaiser (but only at such time as Guizhou Kaiser is not a Subsidiary of the Company and is an Affiliate of the Company), Chengdu Kaiser (but only at such time as Chengdu Kaiser is not a Subsidiary of the Company and is an Affiliate of the Company)," after the term "Furukawa," in the second line thereof.

B. The definition of "Organic Document" contained in Section 1.1 of the Credit Agreement is hereby amended to read in its entirety as follows:

"Organic Document" means, with respect to any Obligor,

its articles or certificate of incorporation and its bylaws (in the case of an Obligor that is a corporation), its articles of organization or certificate of formation and its

regulations or limited liability company agreement (in the case of an Obligor that is a limited liability company), and all shareholder agreements, voting trusts, and similar arrangements applicable to any of its authorized shares of capital stock (in the case of an Obligor that is a corporation) or other equity interests (in the case of an Obligor that is a limited liability company)."

C. The following definitions are hereby added to Section 1.1 of the Credit Agreement in the appropriate

alphabetical order:

"`Chengdu Kaiser' means Chengdu Kaiser Aluminum

Company, Ltd., a corporation organized under the laws of the People's Republic of China."

"`Guizhou Kaiser' means Guizhou Kaiser Aluminum

Company, Ltd., a corporation organized under the laws of the People's Republic of China."

"`KAEII' means Kaiser Aluminum Extrusions International

Inc., a corporation organized under the laws of Delaware."

"`KMH' means Kaiser Micromill Holdings, LLC, a limited

liability company organized under the laws of Delaware."

"`KSM' means Kaiser Sierra Micromills, LLC, a limited

liability company organized under the laws of Delaware."

"`Texas Holdings' means Kaiser Texas Micromill

Holdings, LLC, a limited liability company organized under the laws of Texas."

"`Texas Sierra' means Kaiser Texas Sierra Micromills,

LLC, a limited liability company organized under the laws of Texas."

1.2 Amendments to Article IX: Covenants.

A. Clause (b) (i) of Section 9.2.2 of the Credit

Agreement is hereby amended to read in its entirety as follows:

"(i) Indebtedness of the Company in respect of the Senior Debt, and Contingent Obligations of AJI, KJC, KFC, KAAC, KMH, KSM, Texas Holdings and Texas Sierra as a 'Subsidiary Guarantor' (under and as defined in the Senior

Indenture and the Subordinated Indenture) in respect of the Senior Debt and the Subordinated Debt, respectively;"

B. Clause (b) (ii) of Section 9.2.2 of the Credit

Agreement is hereby amended by (i) adding the phrase "Chengdu Kaiser, Guizhou Kaiser, KAEII," after the phrase "KAAC," in the first parenthetical contained in clause (A) thereof; (ii) adding

the phrase "Chengdu Kaiser, Guizhou Kaiser, KAEII," after the phrase "Yellow River Investment Company," in the first parenthetical contained in clause (B) thereof; and (iii) adding

the phrase "Chengdu Kaiser, Guizhou Kaiser, KAEII," after the phrase "Yellow River Investment Company," in the first parenthetical contained in clause (C) thereof.

C. Clause (b) (xvii) of Section 9.2.2 of the Credit

Agreement is hereby amended by adding the phrase "Chengdu Kaiser, Guizhou Kaiser, KAEII," after the term "AJI," in the parenthetical contained therein.

D. Section 9.2.2 of the Credit Agreement is hereby

amended by (i) deleting the word "and" at the end of clause (b) (xviii) thereof; and (ii) adding the following as new clause (b) (xx) thereof:

"(xx) Indebtedness of KAEII to the Company and its Subsidiaries in an aggregate principal amount not to exceed \$5,000,000 outstanding at any time during Fiscal Year 1996 and \$7,000,000 outstanding at any time thereafter; and"

E. Clause (e) of Section 9.2.5 of the Credit

Agreement is hereby amended to read in its entirety as follows:

"(e) subject to Section 9.2.18, Investments in the ordinary course of business in the Company and its Subsidiaries (other than Investments made prior to October 1, 1993 by any Obligor (other than KBC and KEC) in KBC, KEC or any Subsidiary of the Company that is not an Obligor and other than Investments in Yellow River Investment Company, Chengdu Kaiser, Guizhou Kaiser, KAEII, Alwis or Alwis Acquisition);"

F. Clause (n) of Section 9.2.5 of the Credit

Agreement is hereby amended to read in its entirety as follows:

"(n) Investments in Alwis and Alwis Acquisition and Investments (other than Investments in MAXXAM, any Affiliate of MAXXAM (other than the Company, its Subsidiaries which are not Restricted Subsidiaries, or any Joint Venture Affiliate), Chengdu Kaiser, Guizhou Kaiser, KAEII, Yellow River Investment Company or Yellow River Aluminum) not otherwise permissible hereunder; provided that the aggregate

amount of all Investments (without duplication) under this Section 9.2.5(n) does not exceed \$20,000,000 at any one time outstanding, and provided further that the aggregate amount of Investments under this Section 9.2.5(n) in Alwis and Alwis Acquisition (without duplication) plus the aggregate principal amount of Indebtedness under Section 9.2.2(b) (xix) does not exceed \$250,000 in the aggregate at any one time outstanding;"

G. The first paragraph of clause (o) of Section 9.2.5

of the Credit Agreement is hereby amended to read in its entirety as follows:

"(o) provided (i) no Default or Event of Default shall have occurred and be continuing (or would occur after giving effect to such Investment) and (ii) that the Interest Coverage Ratio for the four Fiscal Quarter period ended as of the end of the last period for which consolidated financial statements of the Company have been delivered pursuant to Section 9.1.1(a) or 9.1.1(b) is greater than 2.0

to 1, Investments in Subsidiaries and Joint Venture Affiliates (other than Alwis, Alwis Acquisition, Chengdu Kaiser, Guizhou Kaiser, KAEII, Yellow River Investment Company and Yellow River Aluminum) not otherwise permissible hereunder in an aggregate amount not to exceed".

H. Clause (r) of Section 9.2.5 of the Credit

Agreement is hereby amended to read in its entirety as follows:

"(r) Indebtedness which is an Investment permitted by clause (b)(xviii), clause (b)(xix) or clause (b)(xx) of

Section 9.2.2; and"

I. Section 9.2.5 of the Credit Agreement is hereby

amended by (i) deleting the word "and" at the end of clause (q)

thereof; and (ii) adding the following as new clause (s) thereof:

"(s) Investments by the Company in Chengdu Kaiser, Guizhou Kaiser and KAEII in an aggregate amount not to exceed \$5,000,000 outstanding at any time during Fiscal Year 1996 (less any Indebtedness outstanding at such time under Section 9.2.2(b)(xx)) and \$7,000,000 outstanding at any time

thereafter (less any Indebtedness outstanding at such time under Section 9.2.2(b)(xx)) and Investments by KAEII in

Chengdu Kaiser and Guizhou Kaiser in an aggregate amount not to exceed \$5,000,000 outstanding at any time during Fiscal Year 1996 and \$7,000,000 outstanding at any time thereafter."

J. Section 9.2.7 of the Credit Agreement is hereby

amended by deleting the figure "\$70,000,000" from the chart for

4

the 1995 Fiscal Year and substituting the figure "\$80,000,000" therefor.

K. Section 9.2.11 of the Credit Agreement is hereby

amended by (i) deleting the word "and" at the end of clause (i)

thereof; (ii) deleting the period at the end of clause (j)

thereof and substituting the phrase "; and" therefor; and (iii) adding the following as new clause (k) thereof:

"(k) the Company may enter into an option to enter into an oil and gas lease and an oil and gas lease with The Clinton Oil Company with respect to real property located in Heath, Ohio; provided that the Company's interest in such lease is assigned as Collateral to the Agent on behalf of the Lenders on terms and pursuant to documentation in form and substance satisfactory to the Agent in its sole and absolute discretion."

L. Clause (c) of Section 9.2.13 of the Credit

Agreement is hereby amended by adding the phrase "KMH, KSM, Texas Holdings, Texas Sierra," after the phrase "AJI," in the parenthetical contained therein.

M. Section 9.2.14 of the Credit Agreement is hereby

amended by adding the following to the end of clause (d) thereof

after the figure "\$1,500,000":

"and provided further that in addition to such payments

in an aggregate amount not to exceed \$1,500,000 permitted to be made for each Fiscal Year, the Company shall be permitted to make a one time payment in respect of services rendered to the Company and the Company's allocable share of MAXXAM's overhead expenses during Fiscal Years 1992, 1993 and 1994 in an aggregate amount not to exceed \$2,374,000"

N. Clause (vi) of Section 9.2.18 of the Credit

Agreement is hereby amended to read in its entirety as follows:

"(vi) Investments permitted by Sections 9.2.5(f),

9.2.5(n), 9.2.5(o), 9.2.5(q), 9.2.5(r) and 9.2.5(s); and"

Section 2. Amendments to Collateral Documents; Release

of Collateral.

The parties agree that, as of the Fifth Amendment Effective Date, (i) the Company Security Agreement shall be amended as set forth in Exhibit A hereto, (ii) the Subsidiary Security Agreement shall be amended as set forth in Exhibit B hereto, (iii) the Subsidiary Guaranty shall be amended as set forth in Exhibit C hereto, and (iv) the Subsidiary Pledge Agreement shall be amended as set forth in Exhibit D hereto. The

5

Required Lenders hereby approve the forms of such amendments, and hereby authorize the Agent on their behalf to accept from the Company and the Subsidiaries of the Company executing such amendments and authorize the Agent to execute and deliver as Agent, the amendment to the Company Security Agreement in substantially the form of such Exhibit A, the amendment to the Subsidiary Security Agreement in substantially the form of such Exhibit B, the amendment to the Subsidiary Guaranty in substantially the form of such Exhibit C and the amendment to the Subsidiary Pledge Agreement in substantially the form of such Exhibit D with such changes, additions or deletions as the Agent, in its sole and absolute discretion, may approve. In addition, the Lenders hereby agree that the Agent may (i) release the Lien of the Lenders in the oil, gas and other substances subject to the oil and gas lease with The Clinton Oil Company (the "Lessee") referred to in Section 9.2.11(k) of the Credit Agreement (the

"Lease"), (ii) subordinate the relevant Company Mortgage to the interest of the Lessee in the Lease, and (iii) execute and deliver such documents, in form and substance satisfactory to the Agent in its sole and absolute discretion, as may be necessary or appropriate to accomplish such release and subordination. The Lenders hereby further agree that approval by the Agent of the Lease shall constitute approval of the Lease by the Lenders.

Section 3. Consent of Lenders.

The Lenders hereby consent to the execution and delivery by the Company, Kaiser Finance Corporation, Kaiser Alumina Australia Corporation, Alpart Jamaica Inc., Kaiser Jamaica Corporation, KMH, KSM, Texas Holdings and Texas Sierra of a supplement to the Senior Indenture and a supplement to the Subordinated Indenture, in form and substance satisfactory to the Agent in its sole and absolute discretion, for the purpose of adding each of KMH, KSM, Texas Holdings and Texas Sierra as a "Subsidiary Guarantor" (under and as defined in the Senior Indenture and the Subordinated Indenture).

Section 4. Conditions to Effectiveness.

This Amendment shall become effective as of the date hereof only when the following conditions shall have been satisfied and notice thereof shall have been given by the Agent to the Parent Guarantor, the Company, the Agent and each Lender (the date of satisfaction of such conditions and the giving of such notice being referred to herein as the "Fifth Amendment

Effective Date"):

A. The Agent shall have received for each Lender counterparts hereof duly executed on behalf of the Parent Guarantor, the Company, the Agent and the Required Lenders (or notice of the approval of this Amendment by the Required Lenders

satisfactory to the Agent shall have been received by the Agent), together with counterparts of the Second Amendment to Company Security Agreement, dated as of December 11, 1995, between the Company and the Agent (the "Security Amendment") and a Pledge

Amendment to the Company Pledge Agreement with respect to the stock of KAEIII (the "Pledge Amendment") duly executed on behalf

of the Company and the Agent.

B. The Agent shall have received:

(1) Resolutions of the Board of Directors or of the Executive Committee of the Company and the Parent Guarantor approving and authorizing the execution, delivery and performance of this Amendment, and, as to the Company, the Security Amendment and the Pledge Amendment, certified by its corporate secretary or an assistant secretary as being in full force and effect without modification or amendment as of the date of execution hereof by the Company or the Parent Guarantor, as the case may be;

(2) A signature and incumbency certificate of the officers of the Company and the Parent Guarantor executing this Amendment, and, as to the Company, the Security Amendment and the Pledge Amendment;

(3) Copies of the Second Amendment to Subsidiary Security Agreement, dated as of December 11, 1995, between the Subsidiaries of the Company parties thereto and the Agent (the "Subsidiary Security Amendment") duly executed on behalf of such

Subsidiaries and the Agent;

(4) Resolutions of the Board of Directors or of the Executive Committee or other authorized governing body or entity of each of the Subsidiaries of the Company executing the Subsidiary Security Amendment approving and authorizing the execution, delivery and performance of the Subsidiary Security Amendment, certified by their respective corporate secretaries or

an assistant secretary or other authorized representative as being in full force and effect without modification or amendment as of the date of execution thereof by such Subsidiary;

(5) A signature and incumbency certificate of the officers or other authorized representative of each of the Subsidiaries of the Company executing the Subsidiary Security Amendment;

(6) Certified copies of the Certificate of Incorporation, Articles of Organization, or Certificate of Formation, as applicable, of KAEII, KMH, KSM, Texas Holdings and Texas Sierra;

7

(7) Copies of the Bylaws, Limited Liability Company Agreement or Regulations, as applicable, of KAEII, KMH, KSM, Texas Holdings and Texas Sierra, certified as of the date of delivery to the Agent by their respective corporate secretaries or an assistant secretary or other authorized representative;

(8) Copies of the Second Amendment to Subsidiary Guaranty, dated as of December 11, 1995, by the Subsidiaries of the Company parties thereto and the Agent (the "Subsidiary Guaranty Amendment") duly executed on behalf of such Subsidiaries and the Agent;

(9) Copies of the Second Amendment to Subsidiary Pledge Agreement, dated as of December 11, 1995, by the Subsidiaries of the Company parties thereto and the Agent (the "Subsidiary Pledge Amendment") duly executed on behalf of such Subsidiaries and the Agent;

(10) Duly executed financing statements (Form UCC-1) naming each of KMH, KSM, Texas Holdings and Texas Sierra as the debtor and the Agent as the secured party, or other similar instruments or documents, suitable for filing under the Uniform Commercial Code of all jurisdictions as may be necessary or, in the reasonable opinion of the Agent, desirable to perfect the security interest of the Agent in the Collateral granted pursuant to the Subsidiary Security Agreement to the extent that perfection may be accomplished by filing under the Uniform Commercial Code in any state in the United States or the District of Columbia;

(11) Duly executed amendments to financing statements naming the Company as debtor and the Agent as the secured party, or other similar instruments or documents, suitable for filing under the Uniform Commercial Code of Texas and California with respect to the ownership interest of the Company in Texas Holdings and KMH;

(12) Resolutions of the Board of Directors or of the Executive Committee or other authorized governing body or entity of each of KMH, KSM, Texas Holdings and Texas Sierra approving and authorizing the execution, delivery and performance of the Subsidiary Guaranty Amendment and the Subsidiary Pledge Amendment, certified by their respective corporate secretaries or an assistant secretary or other authorized representative as being in full force and effect without modification or amendment as of the date of execution thereof by such Subsidiary;

(13) A signature and incumbency certificate of the officers or other authorized representative of KMH, KSM, Texas Holdings and Texas Sierra executing the Subsidiary Guaranty Amendment and the Subsidiary Pledge Amendment;

8

(14) Stock certificates evidencing 100% of the issued and outstanding shares of capital stock of KAEII, accompanied by undated stock powers duly executed in blank;

(15) For each Lender an opinion, addressed to the Agent and each Lender, from Kramer, Levin, Naftalis, Nessen, Kamin & Frankel, in form and substance satisfactory to the Agent; and

(16) Such other information approvals, opinions, documents, or instruments as the Agent may reasonably request.

Section 5. Conditions Subsequent.

The Company or KMH shall, as soon as reasonably practicable, deliver to the Agent duly executed instruments or documents, suitable for recording in the United States Patent and Trademark Office, with respect to granting a security interest in such patents and trademarks owned by the Company or KMH and to be used by KMH and KSM as may be reasonably requested by the Agent.

Section 6. Company's Representations and Warranties.

In order to induce the Lenders and the Agent to enter into this Amendment and to amend the Credit Agreement and the other Loan Documents in the manner provided herein, the Parent Guarantor and the Company represent and warrant to each Lender and the Agent that, as of the Fifth Amendment Effective Date after giving effect to the effectiveness of this Amendment, the following statements are true and correct in all material respects:

A. Authorization of Agreements. The execution and

delivery of this Amendment by the Company and the Parent Guarantor and the performance of the Credit Agreement as amended by this Amendment (the "Amended Agreement") by the Company and

the Parent Guarantor are within such Obligor's corporate powers and have been duly authorized by all necessary corporate action on the part of the Company and the Parent Guarantor, as the case may be.

B. No Conflict. The execution and delivery by the

Company and the Parent Guarantor of this Amendment and the performance by the Company and the Parent Guarantor of the Amended Agreement do not:

(1) contravene such Obligor's Organic Documents;

(2) contravene the Senior Indenture or the Subordinated Indenture or contravene any other contractual restriction where such a contravention has a reasonable

possibility of having a Materially Adverse Effect or contravene any law or governmental regulation or court decree or order binding on or affecting such Obligor or any of its Subsidiaries; or

(3) result in, or require the creation or imposition of, any Lien on any of such Obligor's properties or any of the properties of any Subsidiary of such Obligor, other than pursuant to the Loan Documents.

C. Binding Obligation. This Amendment has been duly

executed and delivered by the Company and the Parent Guarantor and this Amendment and the Amended Agreement constitute the legal, valid and binding obligations of the Company and the Parent Guarantor, enforceable against the Company and the Parent Guarantor in accordance with their respective terms, except as may be limited by bankruptcy, insolvency, reorganization, moratorium or similar laws relating to or limiting creditors' rights generally and by general principles of equity.

D. Governmental Approval, Regulation, etc. No

authorization or approval or other action by, and no notice to or filing with, any governmental authority or regulatory body or any other Person is required for the due execution, delivery or performance of this Amendment by the Company or the Parent Guarantor other than the filing of appropriate financing statements and the filings referred to in Section 5 hereof.

E. Incorporation of Representations and Warranties

from Credit Agreement. Each of the statements set forth in

Section 7.2.1 of the Credit Agreement is true and correct.

Section 7. Acknowledgement and Consent.

The Company is a party to the Company Collateral Documents, in each case as amended through the date hereof, pursuant to which the Company has created Liens in favor of the Agent on certain Collateral to secure the Obligations. The Parent Guarantor is a party to the Parent Collateral Documents, in each case as amended through the date hereof, pursuant to which the Parent Guarantor has created Liens in favor of the Agent on certain Collateral and pledged certain Collateral to the Agent to secure the Obligations of the Parent Guarantor. Certain Subsidiaries of the Company are parties to the Subsidiary Guaranty and/or one or more of the Subsidiary Collateral Documents, in each case as amended through the date hereof, pursuant to which such Subsidiaries have (i) guaranteed the Obligations and/or (ii) created Liens in favor of the Agent on certain Collateral. The Company, the Parent Guarantor and such Subsidiaries are collectively referred to herein as the "Credit Support Parties", and the Company Collateral Documents, the

Parent Collateral Documents, the Subsidiary Guaranty and the Subsidiary Collateral Documents are collectively referred to herein as the "Credit Support Documents".

Each Credit Support Party hereby acknowledges that it has reviewed the terms and provisions of the Credit Agreement as amended by this Amendment and consents to the amendment of the Credit Agreement effected as of the date hereof pursuant to this Amendment and the amendment of the other Loan Documents effected as of the date hereof.

Each Credit Support Party acknowledges and agrees that any of the Credit Support Documents to which it is a party or otherwise bound shall continue in full force and effect. Each Credit Support Party hereby confirms that each Credit Support Document to which it is a party or otherwise bound and all Collateral encumbered thereby will continue to guaranty or secure, as the case may be, the payment and performance of all obligations guaranteed or secured thereby, as the case may be.

Each Credit Support Party (other than the Company and the Parent Guarantor) acknowledges and agrees that (i) notwithstanding the conditions to effectiveness set forth in this Amendment, such Credit Support Party is not required by the terms of the Credit Agreement or any other Loan Document to consent to the amendments to the Credit Agreement effected pursuant to this Amendment and (ii) nothing in the Credit Agreement, this Amendment or any other Loan Document shall be deemed to require the consent of such Credit Support Party to any future amendments to the Credit Agreement.

Section 8. Miscellaneous.

A. Reference to and Effect on the Credit Agreement

and the Other Loan Documents.

(1) On and after the Fifth Amendment Effective Date, each reference in the Credit Agreement to "this Agreement", "hereunder", "hereof", "herein" or words of like import referring to the Credit Agreement, and each reference in the other Loan Documents to the "Credit Agreement", "thereunder", "thereof" or words of like import referring to the Credit Agreement shall mean and be a reference to the Amended Agreement.

(2) Except as specifically amended by this Amendment and the amendments to the other Loan Documents executed as of the date hereof, the Credit Agreement and the other Loan Documents shall remain in full force and effect and are hereby ratified and confirmed.

B. Applicable Law. THIS AMENDMENT SHALL BE DEEMED TO

BE A CONTRACT MADE UNDER AND GOVERNED BY THE INTERNAL LAWS OF THE

11

STATE OF NEW YORK, WITHOUT GIVING EFFECT TO SUCH LAWS RELATING TO CONFLICTS OF LAWS.

C. Headings. The various headings of this Amendment

are inserted for convenience only and shall not affect the meaning or interpretation of this Amendment or any provision hereof.

D. Counterparts. This Amendment may be executed by

the parties hereto in several counterparts and by the different parties on separate counterparts, each of which shall be deemed to be an original and all of which shall constitute together but one and the same instrument; signature pages may be detached from multiple separate counterparts and attached to a single counterpart so that all signature pages are physically attached to the same document.

E. Severability. Any provision of this Amendment

which is prohibited or unenforceable in any jurisdiction shall, as to such provision and such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions of this Amendment or affecting the validity or enforceability of such provisions in any other jurisdiction.

12

IN WITNESS WHEREOF, this Amendment has been duly executed and delivered as of the day and year first above written.

KAISER ALUMINUM CORPORATION

By: _____
Name Printed: John T. La Duc
Its: Vice President,
Chief Financial Officer
and Treasurer

BANKAMERICA BUSINESS CREDIT,
INC., as Agent

By: _____
Name: Michael J. Jasaitis
Its: Vice President

BANK OF AMERICA NATIONAL TRUST
AND SAVINGS ASSOCIATION

By: _____
Name Printed: _____
Its: _____

CONGRESS FINANCIAL CORPORATION
(WESTERN)

By: _____
Name Printed: _____
Its: _____

LA SALLE NATIONAL BANK

By: _____
Name Printed: _____
Its: _____

TRANSAMERICA BUSINESS CREDIT
CORPORATION

By: _____
Name Printed: _____
Its: _____

KAISER ALUMINUM & CHEMICAL
CORPORATION

By: _____
Name Printed: John T. La Duc
Its: Vice President,
Chief Financial Officer
and Treasurer

BANKAMERICA BUSINESS CREDIT,
INC.

By: _____
Name: Michael J. Jasaitis
Its: Vice President

THE CIT GROUP/BUSINESS CREDIT,
INC.

By: _____
Name Printed: _____
Its: _____

HELLER FINANCIAL, INC.

By: _____
Name Printed: _____
Its: _____

NATIONAL WESTMINSTER BANK PLC

By: _____
Name Printed: _____
Its: _____

ABN AMRO BANK N.V.

By: _____
Name Printed: _____
Its: _____

13

ACKNOWLEDGED AND AGREED TO:

AKRON HOLDING CORPORATION

By: _____
Name Printed: John T. La Duc
Its: Vice President,
Chief Financial Officer
and Treasurer

KAISER ALUMINUM PROPERTIES,
INC.

By: _____
Name Printed: John T. La Duc
Its: Vice President,
Chief Financial Officer
and Treasurer

OXNARD FORGE DIE COMPANY, INC.

By: _____
Name Printed: John T. La Duc

KAISER ALUMINUM & CHEMICAL
INVESTMENT, INC.

By: _____
Name Printed: John T. La Duc
Its: Vice President,
Chief Financial Officer
and Treasurer

KAISER ALUMINUM TECHNICAL
SERVICES, INC.

By: _____
Name Printed: John T. La Duc
Its: Vice President,
Chief Financial Officer
and Treasurer

KAISER ALUMINIUM
INTERNATIONAL, INC.

By: _____
Name Printed: John T. La Duc

Its: Vice President,
Chief Financial Officer
and Treasurer

Its: Vice President,
Chief Financial Officer
and Treasurer

KAISER ALUMINA AUSTRALIA
CORPORATION

KAISER FINANCE CORPORATION

By: _____
Name Printed: John T. La Duc
Its: Vice President,
Chief Financial Officer
and Treasurer

By: _____
Name Printed: John T. La Duc
Its: Vice President,
Chief Financial Officer
and Treasurer

ALPART JAMAICA INC.

KAISER JAMAICA CORPORATION

By: _____
Name Printed: John T. La Duc
Its: Vice President,
Chief Financial Officer
and Treasurer

By: _____
Name Printed: John T. La Duc
Its: Vice President,
Chief Financial Officer
and Treasurer

14

KAISER BAUXITE COMPANY

KAISER EXPORT COMPANY

By: _____
Name Printed: John T. La Duc
Its: Vice President,
Chief Financial Officer
and Treasurer

By: _____
Name Printed: John T. La Duc
Its: Vice President,
Chief Financial Officer
and Treasurer

15

EXHIBIT A

SECOND AMENDMENT TO COMPANY SECURITY AGREEMENT

THIS SECOND AMENDMENT TO COMPANY SECURITY AGREEMENT
(this "Amendment"), dated as of December 11, 1995, is by and

between Kaiser Aluminum & Chemical Corporation, a Delaware
corporation (the "Company"), and BankAmerica Business Credit,

Inc., a Delaware corporation, as agent for the Secured Lenders
(as defined in the Credit Agreement referred to below) (in such
capacity, together with its successors and assigns in such
capacity, the "Agent"). Capitalized terms used, but not defined,

herein shall have the meanings given to such terms in the Credit
Agreement, as amended by the Fifth Amendment.

W I T N E S S E T H:

WHEREAS, the Company, Kaiser Aluminum Corporation, the
various financial institutions that are or may from time to time
become parties to the Credit Agreement (collectively, the
"Lenders" and, individually, a "Lender"), and the Agent are

parties to the Credit Agreement, dated as of February 15, 1994,
as amended by the First Amendment to Credit Agreement, dated as
of July 21, 1994, the Second Amendment to Credit Agreement, dated
as of March 10, 1995, the Third Amendment to Credit Agreement and
Acknowledgment, dated as of July 20, 1995, and the Fourth
Amendment to Credit Agreement, dated as of October 17, 1995 (the
"Credit Agreement"); and

WHEREAS, as of the date hereof the Company, the Parent
Guarantor, the Lenders and the Agent are entering into a Fifth
Amendment to Credit Agreement (the "Fifth Amendment"); and

WHEREAS, the Company and the Agent are parties to the Company Security Agreement, Financing Statement and Conditional Assignment of Patents and Trademarks, dated as of February 15, 1994, as amended by the First Amendment to Company Security Agreement, dated as of July 21, 1994 (the "Company Security Agreement"), and have agreed to amend the Company Security Agreement as herein provided; and

WHEREAS, the Required Lenders have consented to the execution and delivery of this Amendment by the Agent;

A-1

NOW, THEREFORE, the parties hereto agree as follows:

Section 1. Amendment to Company Security Agreement.

A. Clause (d) of Section 2 of the Company

Security Agreement is hereby amended to read in its entirety as follows:

"Chattel Paper, Documents (including all Documents covering Goods of the Company), Instruments, Certificated Securities, and Uncertificated Securities, but excluding, however, Securities representing the Company's ownership interest in any of its Subsidiaries (other than, to the extent provided in clause (j) of this Section 2, KMH and Texas Holdings) or Joint

Venture Affiliates;"

B. Section 2 of the Company Security Agreement

is hereby amended by (i) deleting the word "and" at the end of clause (h) thereof; (ii) adding the word "and" at the end of

clause (i) thereof; and (iii) adding the following as new clause

(j) thereof:

"(j) All of the Company's right, title and interest as a member in and to KMH and Texas Holdings (collectively, the "Pledged Interests") to receive money due and to

become due (including, without limitation, distributions, interest, income from the properties and assets of KMH and Texas Holdings and returns of capital) under or pursuant to the certificate of formation, articles of organization, regulations, limited liability company agreement or any other organizational documents of KMH and Texas Holdings governing the rights and obligations of the members thereof (collectively, the 'Organizational

Agreements'), to receive payments or distributions of

property in kind upon termination or liquidation of KMH or Texas Holdings or the Company's interest in KMH or Texas Holdings and to receive any other payments or distributions, whether cash or non-cash, in respect of the Company's interests in KMH or Texas Holdings (collectively, 'LLC Distributions');"

C. Section 4 of the Company Security Agreement

is hereby amended by adding the following at the end thereof:

"This Agreement shall not in any way be deemed to obligate the Agent, any Secured Lender or any purchaser at a foreclosure sale under this Agreement to assume any of the Company's obligations, duties, expenses or liabilities under the Organizational Agreements (including, without limitation, the Company's obligations as a member for the debts and obligations of KMH and Texas Holdings and to

A-2

manage the business and affairs of KMH and Texas Holdings), unless and until the Agent, any Secured Lender or purchaser otherwise agrees to become, and becomes in accordance with the applicable Organizational Agreements, a member of KMH or Texas Holdings, as the case may be."

D. The Company Security Agreement is hereby amended by adding the following as new Section 20 thereof:

"SECTION 20. LLC Distributions

(a) Subject to the provisions of the Credit Agreement, the Company shall be entitled to receive and retain any and all LLC Distributions paid unless an Event of Default under Section 10.1.1 of the Credit Agreement has occurred and is

continuing or unless and until it receives notice, given with the consent of the Required Lenders during the continuance of any other Event of Default, from the Agent that such right has been suspended; provided, however, that

any and all

(i) LLC Distributions paid or payable other than in cash in respect of, and instruments and other property received, receivable, or otherwise distributed in respect of, or in exchange for, any Pledged Interests,

(ii) LLC Distributions paid or payable in cash in respect of any Pledged Interests in connection with a partial or total liquidation or dissolution or in connection with a reduction of capital, or returns of capital, and

(iii) cash paid, payable, or otherwise distributed in redemption of or in exchange for any Pledged Interests,

shall be, and shall forthwith be delivered to the Agent to hold as, Collateral (unless such LLC Distributions or cash are (A) otherwise subject to a Lien in favor of the Agent pursuant to any other Loan Document, (B) in the case of cash, applied to repay Loans under the Credit Agreement, or (C) real property, plant or equipment which, if acquired by the Company after the date hereof, would not be required to be subject to a Lien in favor of the Agent under the terms of the Credit Agreement) and shall, if received by the Company, be received in trust for the benefit of the Agent, be segregated from the other property or funds of the Company and be forthwith delivered (if required to be delivered hereunder) to the Agent as Collateral in the same form as so received (with all necessary endorsements).

A-3

(b) The Agent shall promptly execute and deliver (or cause to be executed and delivered) to the Company all such documents and instruments as the Company may from time to time reasonably request for the purpose of enabling the Company to receive the LLC Distributions which it is authorized to receive and retain pursuant to clause (a) above.

(c) Upon the occurrence and during the continuance of an Event of Default under Section 10.1.1 of the Credit Agreement or

upon receipt by the Company of notice from the Agent, given with the consent of the Required Lenders during the continuance of any other Event of Default, all rights of the Company to receive the LLC Distributions which it would otherwise be authorized to receive and retain pursuant to clause (a) shall be suspended, and

all such rights shall thereupon become vested in the Agent which shall thereupon (during the continuance of such Event of Default) have the sole right to receive and hold as Collateral such LLC Distributions.

(d) All LLC Distributions which are received by the Company contrary to the provisions of clause (c) shall be received in

trust for the benefit of the Agent, shall be segregated from other funds of the Company and shall forthwith be paid over to the Agent as Collateral in the same form as so received (with any necessary endorsements). Any and all money and other property paid over to or received by the Agent pursuant to the provisions of this clause (d) shall be retained by the Agent as additional

Collateral hereunder and be applied in accordance with the provisions hereof.

(e) In order to permit the Agent to receive all LLC Distributions which it is entitled to receive under clause (a) or

clause (c), the Company shall promptly execute and deliver (or

cause to be executed and delivered) to the Agent all such documents or instruments as the Agent may from time to time reasonably request."

Section 2. Company's Representations and Warranties.

In order to induce the Agent to enter into this Amendment and to amend the Company Security Agreement in the manner provided herein, and to induce the Required Lenders to consent to such action by the Agent, the Company represents and warrants to each Lender and the Agent that, as of the Fifth Amendment Effective Date (as defined in the Fifth Amendment) after giving effect to the effectiveness of this Amendment, the following statements are true and correct in all material respects:

A. Authorization of Agreements. The execution and delivery of this Amendment by the Company and the performance of

the Company Security Agreement as amended by this Amendment (the "Amended Agreement") by the Company are within the Company's corporate powers and have been duly authorized by all necessary corporate action on the part of the Company.

B. No Conflict. The execution and delivery by the Company of this Amendment and the performance by the Company of

the Amended Agreement do not:

(1) contravene the Company's Organic Documents or the Organizational Agreements;

(2) contravene the Senior Indenture or the Subordinated Indenture or contravene any other contractual restriction where such a contravention has a reasonable possibility of having a Materially Adverse Effect or contravene any law or governmental regulation or court decree or order binding on or affecting the Company or any of its Subsidiaries; or

(3) result in, or require the creation or imposition of, any Lien on any of the Company's properties, other than pursuant to the Loan Documents.

C. Binding Obligation. This Amendment has been duly

executed and delivered by the Company and this Amendment and the Amended Agreement constitute the legal, valid and binding obligations of the Company, enforceable against the Company in accordance with their respective terms, except as may be limited by bankruptcy, insolvency, reorganization, moratorium or similar laws relating to or limiting creditors' rights generally and by general principles of equity.

D. Governmental Approval, Regulation, etc. No

authorization or approval or other action by, and no notice to or filing with, any governmental authority or regulatory body or other Person is required for the due execution, delivery or performance of this Amendment by the Company, the pledge of and grant by the Company of a security interest in the Company's interest in the LLC Distributions or the perfection of such security interest, other than the filing of appropriate financing statements.

E. Organizational Agreements. With such exceptions,

if any, as are not in the aggregate material to the Collateral taken as whole, no default by the Company or any other member exists under any of the Organizational Agreements to which it is a party and no event has occurred or exists which, with notice or lapse of time or both, would constitute a default by the Company thereunder and each of the Organizational Agreements has been duly authorized, executed and delivered by the Company and is in full force and effect and has not been amended or modified except

A-5

as disclosed to the Agent. There are no outstanding rights to purchase, or other agreements that require the issuance of, any membership interests in KMH or Texas Holdings. The Company's interest in KMH and Texas Holdings are not evidenced by certificates or instruments. The Company shall cause KMH and Texas Holdings to register the pledge of the Company's interests on their respective books and records.

Section 3. Miscellaneous.

A. Reference to and Effect on the Company Security

Agreement and the Other Loan Documents.

(1) On and after the Fifth Amendment Effective Date, each reference in the Company Security Agreement to "this Agreement", "hereunder", "hereof", "herein" or words of like import referring to the Company Security Agreement, and each reference in the other Loan Documents to the "Company Security Agreement", "thereunder", "thereof" or words of like import

referring to the Company Security Agreement shall mean and be a reference to the Amended Agreement.

(2) Except as specifically amended by this Amendment, the Company Security Agreement shall remain in full force and effect and is hereby ratified and confirmed.

(3) The execution, delivery and performance of this Amendment shall not, except as expressly provided herein, constitute a waiver of any provision of, or operate as a waiver of any right, power or remedy of the Agent or any Lender under, the Company Security Agreement.

B. Applicable Law. THIS AMENDMENT SHALL BE DEEMED TO BE A CONTRACT MADE UNDER AND GOVERNED BY THE INTERNAL LAWS OF THE STATE OF NEW YORK, WITHOUT GIVING EFFECT TO SUCH LAWS RELATING TO CONFLICTS OF LAWS.

C. Headings. The various headings of this Amendment are inserted for convenience only and shall not affect the meaning or interpretation of this Amendment or any provision hereof.

D. Counterparts. This Agreement may be executed by the parties hereto in several counterparts and by the different parties on separate counterparts, each of which shall be deemed to be an original and all of which shall constitute together but one and the same instrument; signature pages may be detached from multiple separate counterparts and attached to a single counterpart so that all signature pages are physically attached to the same document.

A-6

E. Severability. Any provision of this Amendment which is prohibited or unenforceable in any jurisdiction shall, as to such provision and such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions of this Amendment or affecting the validity or enforceability of such provisions in any other jurisdiction.

IN WITNESS WHEREOF, this Amendment has been duly executed and delivered as of the day and year first above written.

KAISER ALUMINUM & CHEMICAL CORPORATION

BANKAMERICA BUSINESS CREDIT, INC., as Agent

By:
Name: John T. La Duc
Its: Vice President,
Chief Financial Officer
and Treasurer

By:
Name: Michael J. Jasaitis
Its: Vice President

A-7

EXHIBIT B

SECOND AMENDMENT TO SUBSIDIARY SECURITY AGREEMENT

THIS SECOND AMENDMENT TO SUBSIDIARY SECURITY AGREEMENT
(this "Amendment"), dated as of December 11, 1995, is by and

among Akron Holding Corporation, an Ohio corporation, Kaiser
Alumina Australia Corporation, a Delaware corporation, Kaiser
Aluminium International, Inc., a Delaware corporation, Kaiser
Aluminum & Chemical Investment, Inc., a Delaware corporation,
Kaiser Aluminum Properties, Inc., a Delaware corporation, Kaiser
Aluminum Technical Services, Inc., a California corporation,
Kaiser Finance Corporation, a Delaware corporation, and Oxnard
Forge Die Company, Inc., a California corporation (collectively,
the "Existing Kaiser Subsidiaries" and individually, an "Existing

Kaiser Subsidiary"), Kaiser Micromill Holdings, LLC, a limited

liability company organized under the laws of Delaware, Kaiser
Sierra Micromills, LLC, a limited liability company organized
under the laws of Delaware, Kaiser Texas Sierra Micromills, LLC,
a limited liability company organized under the laws of Texas,
and Kaiser Texas Micromill Holdings, LLC, a limited liability
company organized under the laws of Texas (collectively, the "New

Kaiser Subsidiaries" and individually, a "New Kaiser

Subsidiary"), and BankAmerica Business Credit, Inc., a Delaware

corporation, as agent for the Secured Lenders (as defined in the
Credit Agreement referred to below) (in such capacity, together
with its successors and assigns in such capacity, the "Agent").

Capitalized terms used, but not defined, herein shall have the
meanings given to such terms in the Credit Agreement, as amended
by the Fifth Amendment.

W I T N E S S E T H:

WHEREAS, Kaiser Aluminum & Chemical Corporation, a
Delaware corporation (the "Company"), Kaiser Aluminum

Corporation, a Delaware corporation (the "Parent Guarantor"), the

various financial institutions that are or may from time to time
become parties to the Credit Agreement (collectively, the
"Lenders" and, individually, a "Lender"), and the Agent are

parties to the Credit Agreement, dated as of February 15, 1994,
as amended by the First Amendment to Credit Agreement, dated as
of July 21, 1994, the Second Amendment to Credit Agreement, dated
as of March 10, 1995, the Third Amendment to Credit Agreement and
Acknowledgment, dated as of July 20, 1995, and the Fourth
Amendment to Credit Agreement, dated as of October 17, 1995 (the
"Credit Agreement"); and

WHEREAS, as of the date hereof the Company, the Parent
Guarantor, the Lenders and the Agent are entering into a Fifth
Amendment to Credit Agreement (the "Fifth Amendment"); and

B-1

WHEREAS, the Existing Kaiser Subsidiaries and the Agent
are parties to the Subsidiary Security Agreement, Financing
Statement and Conditional Assignment of Patents and Trademarks,
dated as of February 15, 1994, as amended by the First Amendment
to Subsidiary Security Agreement, dated as of July 21, 1994 (the
"Subsidiary Security Agreement"), and have agreed to amend the

Subsidiary Security Agreement as herein provided; and

WHEREAS, the New Kaiser Subsidiaries are required as a
condition to the effectiveness of the Fifth Amendment to execute

this Amendment; and

WHEREAS, the Required Lenders have consented to the execution and delivery of this Amendment by the Agent;

NOW, THEREFORE, the parties hereto agree as follows:

Section 1. Amendment to Subsidiary Security Agreement.

A. Clause (d) of Section 2 of the Subsidiary

Security Agreement is hereby amended to read in its entirety as follows:

"Chattel Paper, Documents (including all Documents covering Goods of such Kaiser Subsidiary), Instruments, Certificated Securities, and Uncertificated Securities, but excluding, however, Securities representing such Kaiser Subsidiary's ownership interest in any other Subsidiary of the Company (other than, to the extent provided in clause (j) of this

Section 2, KMH, KSM and Texas Sierra) or Joint Venture

Affiliates;"

B. Section 2 of the Subsidiary Security

Agreement is hereby amended by (i) deleting the word "and" at the end of clause (h) thereof; (ii) adding the word "and" at the end

of clause (i) thereof; and (iii) adding the following as new

clause (j) thereof:

"(j) All of each Kaiser Subsidiary's right, title and interest as a member in and to KMH, KSM and Texas Sierra (collectively, the "Pledged Interests") to

receive money due and to become due (including, without limitation, distributions, interest, income from the properties and assets of KMH, KSM and Texas Sierra and returns of capital) under or pursuant to the certificate of formation, articles of organization, regulations, limited liability company agreement or any other organizational documents of KMH, KSM and Texas Sierra governing the rights and obligations of the members thereof (collectively, the 'Organizational

Agreements'), to receive payments or distributions of

property in kind upon termination or liquidation of

B-2

KMH, KSM or Texas Sierra or such Kaiser Subsidiary's interest in KMH, KSM or Texas Sierra and to receive any other payments or distributions, whether cash or non-cash, in respect of such Kaiser Subsidiary's interests in KMH, KSM or Texas Sierra (collectively, 'LLC

Distributions');"

C. Section 4 of the Subsidiary Security

Agreement is hereby amended by adding the following at the end thereof:

"This Agreement shall not in any way be deemed to obligate the Agent, any Secured Lender or any purchaser at a foreclosure sale under this Agreement to assume any of such

Kaiser Subsidiary's obligations, duties, expenses or liabilities under the Organizational Agreements (including, without limitation, such Kaiser Subsidiary's obligations as a member for the debts and obligations of KMH, KSM and Texas Sierra and to manage the business and affairs of KMH, KSM and Texas Sierra), unless and until the Agent, any Secured Lender or purchaser otherwise agrees to become, and becomes in accordance with the applicable Organizational Agreements, a member of KMH, KSM or Texas Sierra, as the case may be."

D. Clauses (a) and (b) of Section 5 of the

Subsidiary Security Agreement are hereby amended to read in their entirety as follows:

"(a) It is a corporation or a limited liability company validly organized or formed, as the case may be, and existing and in good standing under the laws of the jurisdiction of its incorporation or formation, as the case may be, and has full corporate power or company power, as the case may be, and authority to enter into and perform this Agreement.

"(b) The execution, delivery, and performance of this Agreement are within the corporate powers or company powers, as the case may be, of such Kaiser Subsidiary and have been duly authorized by all necessary corporate action or company action, as the case may be, on the part of such Kaiser Subsidiary."

E. Clause (d) of Section 7 of the Subsidiary

Security Agreement is hereby amended to read in its entirety as follows:

"(d) Notify the Agent of any change in such Kaiser Subsidiary's name, identity or organizational structure within 15 days of such change."

B-3

F. The Subsidiary Security Agreement is hereby amended by adding the following as new Section 20 thereof:

"SECTION 20. LLC Distributions

(a) Subject to the provisions of the Credit Agreement, each Kaiser Subsidiary shall be entitled to receive and retain any and all LLC Distributions paid unless an Event of Default under Section 10.1.1 of the Credit Agreement has

occurred and is continuing or unless and until it receives notice, given with the consent of the Required Lenders during the continuance of any other Event of Default, from the Agent that such right has been suspended; provided,

however, that any and all

(i) LLC Distributions paid or payable other than in cash in respect of, and instruments and other property received, receivable, or otherwise distributed in respect of, or in exchange for, any Pledged Interests,

(ii) LLC Distributions paid or payable in cash in respect of any Pledged Interests in connection with a partial or total liquidation or dissolution or in connection with a reduction of capital, or returns of capital, and

(iii) cash paid, payable, or otherwise distributed in redemption of or in exchange for any Pledged Interests,

shall be, and shall forthwith be delivered to the Agent to hold as, Collateral (unless such LLC Distributions or cash are (A) otherwise subject to a Lien in favor of the Agent pursuant to any other Loan Document, (B) in the case of cash, applied to repay Loans under the Credit Agreement, or (C) real property, plant or equipment which, if acquired by any Kaiser Subsidiary after the date hereof, would not be required to be subject to a Lien in favor of the Agent under the terms of the Credit Agreement) and shall, if received by such Kaiser Subsidiary, be received in trust for the benefit of the Agent, be segregated from the other property or funds of such Kaiser Subsidiary and be forthwith delivered (if required to be delivered hereunder) to the Agent as Collateral in the same form as so received (with all necessary endorsements).

(b) The Agent shall promptly execute and deliver (or cause to be executed and delivered) to each Kaiser Subsidiary all such documents and instruments as such Kaiser Subsidiary may from time to time reasonably request for the purpose of enabling such Kaiser Subsidiary to receive the LLC Distributions which it is authorized to receive and retain pursuant to clause (a) above.

B-4

(c) Upon the occurrence and during the continuance of an Event of Default under Section 10.1.1 of the Credit Agreement or

upon receipt by the Kaiser Subsidiary of notice from the Agent, given with the consent of the Required Lenders during the continuance of any other Event of Default, all rights of such Kaiser Subsidiary to receive the LLC Distributions which it would otherwise be authorized to receive and retain pursuant to clause

(a) shall be suspended, and all such rights shall thereupon

become vested in the Agent which shall thereupon (during the continuance of such Event of Default) have the sole right to receive and hold as Collateral such LLC Distributions.

(d) All LLC Distributions which are received by any Kaiser Subsidiary contrary to the provisions of clause (c) shall be

received in trust for the benefit of the Agent, shall be segregated from other funds of such Kaiser Subsidiary and shall forthwith be paid over to the Agent as Collateral in the same form as so received (with any necessary endorsements). Any and all money and other property paid over to or received by the Agent pursuant to the provisions of this clause (d) shall be

retained by the Agent as additional Collateral hereunder and be applied in accordance with the provisions hereof.

(e) In order to permit the Agent to receive all LLC Distributions which it is entitled to receive under clause (a) or

clause (c), each Kaiser Subsidiary shall promptly execute and

deliver (or cause to be executed and delivered) to the Agent all such documents or instruments as the Agent may from time to time reasonably request."

Section 2. Addition of New Kaiser Subsidiaries.

On and after the Fifth Amendment Effective Date (as defined in the Fifth Amendment), the New Kaiser Subsidiaries

shall be parties to the Subsidiary Security Agreement and the terms "Kaiser Subsidiary" and "Kaiser Subsidiaries" (as used in the Subsidiary Security Agreement) shall include and also be a reference to the New Kaiser Subsidiaries. Schedules I through VI of the Subsidiary Security Agreement are hereby amended to include the information set forth on Schedules I through VI hereto with respect to the New Kaiser Subsidiaries.

Section 3. Kaiser Subsidiaries' Representations and

Warranties.

In order to induce the Agent to enter into this Amendment and to amend the Subsidiary Security Agreement in the manner provided herein, and to induce the Required Lenders to consent to such action by the Agent, each Kaiser Subsidiary (including each New Kaiser Subsidiary) represents and warrants to each Lender and the Agent that, as of the Fifth Amendment Effective Date after giving effect to the effectiveness of this

B-5

Amendment, the following statements are true and correct in all material respects:

A. Authorization of Agreements. The execution and

delivery of this Amendment by such Kaiser Subsidiary and the performance of the Subsidiary Security Agreement as amended by this Amendment (the "Amended Agreement") by such Kaiser

Subsidiary are within such Kaiser Subsidiary's corporate powers or company powers, as the case may be, and have been duly authorized by all necessary corporate action or company action, as the case may be, on the part of such Kaiser Subsidiary.

B. No Conflict. The execution and delivery by such

Kaiser Subsidiary of this Amendment and the performance by such Kaiser Subsidiary of the Amended Agreement do not:

(1) contravene such Kaiser Subsidiary's Organic Documents or the Organizational Agreements;

(2) contravene the Senior Indenture or the Subordinated Indenture or contravene any other contractual restriction where such a contravention has a reasonable possibility of having a Materially Adverse Effect or contravene any law or governmental regulation or court decree or order binding on or affecting such Kaiser Subsidiary or any of its Subsidiaries; or

(3) result in, or require the creation or imposition of, any Lien on any of such Kaiser Subsidiary's properties, other than pursuant to the Loan Documents.

C. Binding Obligation. This Amendment has been duly

executed and delivered by such Kaiser Subsidiary and this Amendment and the Amended Agreement constitute the legal, valid and binding obligations of such Kaiser Subsidiary, enforceable against such Kaiser Subsidiary in accordance with their respective terms, except as may be limited by bankruptcy, insolvency, reorganization, moratorium or similar laws relating to or limiting creditors' rights generally and by general principles of equity.

D. Governmental Approval, Regulation, etc. No

authorization or approval or other action by, and no notice to or filing with, any governmental authority or regulatory body or other Person is required for the due execution, delivery or

performance of this Amendment by such Kaiser Subsidiary, the pledge of and grant by such Kaiser Subsidiary of a security interest in such Kaiser Subsidiary's interest in the LLC Distributions or the perfection of such security interest, other than the filing of appropriate financing statements.

B-6

E. Organizational Agreements. With such exceptions,

if any, as are not in the aggregate material to the Collateral taken as a whole, no default by such Kaiser Subsidiary or any other member exists under any of the Organizational Agreements to which it is a party and no event has occurred or exists which, with notice or lapse of time or both, would constitute a default by such Kaiser Subsidiary thereunder and each of the Organizational Agreements has been duly authorized, executed and delivered by such Kaiser Subsidiary and is in full force and effect and has not been amended or modified except as disclosed to the Agent. There are no outstanding rights to purchase, or other agreements that require the issuance of, any membership interests in KHM, KSM or Texas Sierra. Such Kaiser Subsidiary's interest in KHM, KSM and Texas Sierra are not evidenced by certificates or instruments. Such Kaiser Subsidiary shall cause KHM, KSM and Texas Sierra to register the pledge of such Kaiser Subsidiary's interests on their respective books and records.

Section 4. Miscellaneous.

A. Reference to and Effect on the Subsidiary Security

Agreement and the Other Loan Documents.

(1) On and after the Fifth Amendment Effective Date, each reference in the Subsidiary Security Agreement to "this Agreement", "hereunder", "hereof", "herein" or words of like import referring to the Subsidiary Security Agreement, and each reference in the other Loan Documents to the "Subsidiary Security Agreement", "thereunder", "thereof" or words of like import referring to the Subsidiary Security Agreement shall mean and be a reference to the Amended Agreement.

(2) Except as specifically amended by this Amendment, the Subsidiary Security Agreement shall remain in full force and effect and is hereby ratified and confirmed.

(3) The execution, delivery and performance of this Amendment shall not, except as expressly provided herein, constitute a waiver of any provision of, or operate as a waiver of any right, power or remedy of the Agent or any Lender under, the Subsidiary Security Agreement.

B. Applicable Law. THIS AMENDMENT SHALL BE DEEMED TO

BE A CONTRACT MADE UNDER AND GOVERNED BY THE INTERNAL LAWS OF THE STATE OF NEW YORK, WITHOUT GIVING EFFECT TO SUCH LAWS RELATING TO CONFLICTS OF LAWS.

C. Headings. The various headings of this Amendment

are inserted for convenience only and shall not affect the meaning or interpretation of this Amendment or any provision hereof.

B-7

D. Counterparts. This Agreement may be executed by

the parties hereto in several counterparts and by the different parties on separate counterparts, each of which shall be deemed to be an original and all of which shall constitute together but one and the same instrument; signature pages may be detached from multiple separate counterparts and attached to a single counterpart so that all signature pages are physically attached to the same document.

E. Severability. Any provision of this Amendment

which is prohibited or unenforceable in any jurisdiction shall, as to such provision and such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions of this Amendment or affecting the validity or enforceability of such provisions in any other jurisdiction.

IN WITNESS WHEREOF, this Amendment has been duly executed and delivered as of the day and year first above written.

BANKAMERICA BUSINESS CREDIT,
INC., as Agent

By:
Name: Michael J. Jasaitis
Its: Vice President

AKRON HOLDING CORPORATION

KAISER ALUMINUM & CHEMICAL
INVESTMENT, INC.

By:
Name: John T. La Duc
Its: Vice President,
Chief Financial Officer
and Treasurer

By:
Name: John T. La Duc
Its: Vice President,
Chief Financial Officer
and Treasurer

KAISER ALUMINUM PROPERTIES,
INC.

KAISER ALUMINUM TECHNICAL
SERVICES, INC.

By:
Name: John T. La Duc
Its: Vice President,
Chief Financial Officer
and Treasurer

By:
Name: John T. La Duc
Its: Vice President,
Chief Financial Officer
and Treasurer

B-8

OXNARD FORGE DIE COMPANY, INC.

KAISER ALUMINIUM
INTERNATIONAL, INC.

By:
Name: John T. La Duc
Its: Vice President,
Chief Financial Officer
and Treasurer

By:
Name: John T. La Duc
Its: Vice President,
Chief Financial Officer
and Treasurer

KAISER ALUMINA AUSTRALIA
CORPORATION

KAISER FINANCE CORPORATION

By:
Name: John T. La Duc
Its: Vice President,
Chief Financial Officer
and Treasurer

By:
Name: John T. La Duc
Its: Vice President,
Chief Financial Officer
and Treasurer

KAISER MICROMILL HOLDINGS, LLC

KAISER SIERRA MICROMILLS, LLC

By:

By:

Name: John T. La Duc
Its: Manager

Name: John T. La Duc
Its: Vice President,
Chief Financial Officer
and Treasurer

KAISER TEXAS SIERRA MICROMILLS,
LLC

KAISER TEXAS MICROMILL
HOLDINGS, LLC

By:
Name: John T. La Duc
Its: Vice President,
Chief Financial Officer
and Treasurer

By:
Name: John T. La Duc
Its: Vice President,
Chief Financial Officer
and Treasurer

B-9

EXHIBIT C

SECOND AMENDMENT TO SUBSIDIARY GUARANTY

THIS SECOND AMENDMENT TO SUBSIDIARY GUARANTY (this
"Amendment"), dated as of December 11, 1995, is by and among

Akron Holding Corporation, an Ohio corporation, Alpart Jamaica
Inc., a Delaware corporation, Kaiser Alumina Australia
Corporation, a Delaware corporation, Kaiser Aluminium
International, Inc., a Delaware corporation, Kaiser Aluminum &
Chemical Investment, Inc., a Delaware corporation, Kaiser
Aluminum Properties, Inc., a Delaware corporation, Kaiser
Aluminum Technical Services, Inc., a California corporation,
Kaiser Finance Corporation, a Delaware corporation, Kaiser
Jamaica Corporation, a Delaware corporation, and Oxnard Forge Die
Company, Inc., a California corporation (collectively, the
"Existing Kaiser Subsidiaries" and individually, an "Existing

Kaiser Subsidiary"), Kaiser Micromill Holdings, LLC, a limited

liability company organized under the laws of Delaware, Kaiser
Sierra Micromills, LLC, a limited liability company organized
under the laws of Delaware, Kaiser Texas Sierra Micromills, LLC,
a limited liability company organized under the laws of Texas,
and Kaiser Texas Micromill Holdings, LLC, a limited liability
company organized under the laws of Texas (collectively, the "New

Kaiser Subsidiaries" and individually, a "New Kaiser

Subsidiary"), and BankAmerica Business Credit, Inc., a Delaware

corporation, as agent for the Secured Lenders (as defined in the
Credit Agreement referred to below) (in such capacity, together
with its successors and assigns in such capacity, the "Agent").

Capitalized terms used, but not defined, herein shall have the
meanings given to such terms in the Credit Agreement, as amended
by the Fifth Amendment.

W I T N E S S E T H:

WHEREAS, Kaiser Aluminum & Chemical Corporation, a
Delaware corporation (the "Company"), Kaiser Aluminum

Corporation, a Delaware corporation (the "Parent Guarantor"), the

various financial institutions that are or may from time to time
become parties to the Credit Agreement (collectively, the
"Lenders" and, individually, a "Lender"), and the Agent are

parties to the Credit Agreement, dated as of February 15, 1994,
as amended by the First Amendment to Credit Agreement, dated as
of July 21, 1994, the Second Amendment to Credit Agreement, dated
as of March 10, 1995, the Third Amendment to Credit Agreement and
Acknowledgment, dated as of July 20, 1995, and the Fourth

Amendment to Credit Agreement, dated as of October 17, 1995 (the "Credit Agreement"); and

C-1

WHEREAS, as of the date hereof the Company, the Parent Guarantor, the Lenders and the Agent are entering into a Fifth Amendment to Credit Agreement (the "Fifth Amendment"); and

WHEREAS, the Existing Kaiser Subsidiaries are parties to the Subsidiary Guaranty, dated as of February 15, 1994, as amended by the First Amendment to Subsidiary Guaranty, dated as of July 21, 1994 (the "Subsidiary Guaranty"), and have agreed to

amend the Subsidiary Guaranty as herein provided; and

WHEREAS, the New Kaiser Subsidiaries are required as a condition to the effectiveness of the Fifth Amendment to execute this Amendment; and

WHEREAS, the Required Lenders have consented to the execution and delivery of this Amendment by the Agent;

NOW, THEREFORE, the parties hereto agree as follows:

Section 1. Amendment to Subsidiary Guaranty.

A. Section 3.1 of the Subsidiary Guaranty is

hereby amended to read in its entirety as follows:

"SECTION 3.1. Organization, etc. Such undersigned is

a corporation or a limited liability company validly organized or formed, as the case may be, and existing and in good standing under the laws of the jurisdiction of its incorporation or formation, as the case may be, and has full corporate power or company power, as the case may be, and authority to enter into and perform its obligations under this Guaranty."

B. Section 3.2 of the Guaranty is hereby amended

to read in its entirety as follows:

"SECTION 3.2. Due Authorization, Non-Contravention,

etc. The execution, delivery, and performance of this Guaranty
- - -
are within the corporate powers or company powers, as the case may be, of such undersigned, have been duly authorized by all necessary corporate action or company action, as the case may be, on the part of such undersigned, and do not contravene such undersigned's Organic Documents, or contravene any contractual restriction where such a contravention has a reasonable possibility of having a Materially Adverse Effect, or contravene any law or governmental regulation or court decree or order binding upon or affecting such undersigned, or result in, or require the creation or imposition of, any Lien on any of such undersigned's properties, other than pursuant to this Guaranty or any other Loan Document."

C-2

Section 2. Addition of New Kaiser Subsidiaries.

On and after the Fifth Amendment Effective Date (as defined in the Fifth Amendment), the New Kaiser Subsidiaries shall be parties to the Subsidiary Guaranty and the terms "Guarantor" and "Guarantors" (as used in the Subsidiary Guaranty) shall include and also be a reference to the New Kaiser Subsidiaries.

Section 3. Guarantors' Representations and Warranties.

In order to induce the Agent to enter into this Amendment and to amend the Subsidiary Guaranty in the manner provided herein, and to induce the Required Lenders to consent to such action by the Agent, each Guarantor (including each New Kaiser Subsidiary) represents and warrants to each Lender and the Agent that, as of the Fifth Amendment Effective Date after giving effect to the effectiveness of this Amendment, the following statements are true and correct in all material respects:

A. Authorization of Agreements. The execution and

delivery of this Amendment by such Guarantor and the performance of the Subsidiary Guaranty as amended by this Amendment (the "Amended Agreement") by such Guarantor are within such

Guarantor's corporate powers or company powers, as the case may be, and have been duly authorized by all necessary corporate action or company action, as the case may be, on the part of such Guarantor.

B. No Conflict. The execution and delivery by such

Guarantor of this Amendment and the performance by such Guarantor of the Amended Agreement do not:

(1) contravene such Guarantor's Organic Documents or the Organizational Agreements;

(2) contravene the Senior Indenture or the Subordinated Indenture or contravene any other contractual restriction where such a contravention has a reasonable possibility of having a Materially Adverse Effect or contravene any law or governmental regulation or court decree or order binding on or affecting such Guarantor or any of its Subsidiaries; or

(3) result in, or require the creation or imposition of, any Lien on any of such Guarantor's properties, other than pursuant to the Loan Documents.

C. Binding Obligation. This Amendment has been duly

executed and delivered by such Guarantor and this Amendment and the Amended Agreement constitute the legal, valid and binding obligations of such Guarantor, enforceable against such Guarantor

C-3

in accordance with their respective terms, except as may be limited by bankruptcy, insolvency, reorganization, moratorium or similar laws relating to or limiting creditors' rights generally and by general principles of equity.

D. Governmental Approval, Regulation, etc. No

authorization or approval or other action by, and no notice to or filing with, any governmental authority or regulatory body or other Person is required for the due execution, delivery or performance of this Amendment by such Guarantor.

Section 4. Miscellaneous.

A. Reference to and Effect on the Subsidiary Guaranty

and the Other Loan Documents.

(1) On and after the Fifth Amendment Effective Date, each reference in the Subsidiary Guaranty to "this Agreement", "hereunder", "hereof", "herein" or words of like import referring to the Subsidiary Guaranty, and each reference in the other Loan Documents to the "Subsidiary Guaranty", "thereunder", "thereof" or words of like import referring to the Subsidiary Guaranty shall mean and be a reference to the Amended Agreement.

(2) Except as specifically amended by this Amendment, the Subsidiary Guaranty shall remain in full force and effect and is hereby ratified and confirmed.

(3) The execution, delivery and performance of this Amendment shall not, except as expressly provided herein, constitute a waiver of any provision of, or operate as a waiver of any right, power or remedy of the Agent or any Lender under, the Subsidiary Guaranty.

B. Applicable Law. THIS AMENDMENT SHALL BE DEEMED TO

BE A CONTRACT MADE UNDER AND GOVERNED BY THE INTERNAL LAWS OF THE STATE OF NEW YORK, WITHOUT GIVING EFFECT TO SUCH LAWS RELATING TO CONFLICTS OF LAWS.

C. Headings. The various headings of this Amendment

are inserted for convenience only and shall not affect the meaning or interpretation of this Amendment or any provision hereof.

D. Counterparts. This Agreement may be executed by

the parties hereto in several counterparts and by the different parties on separate counterparts, each of which shall be deemed to be an original and all of which shall constitute together but one and the same instrument; signature pages may be detached from multiple separate counterparts and attached to a single

C-4

counterpart so that all signature pages are physically attached to the same document.

E. Severability. Any provision of this Amendment

which is prohibited or unenforceable in any jurisdiction shall, as to such provision and such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions of this Amendment or affecting the validity or enforceability of such provisions in any other jurisdiction.

IN WITNESS WHEREOF, this Amendment has been duly executed and delivered as of the day and year first above written.

BANKAMERICA BUSINESS CREDIT,
INC., as Agent

By:
Name: Michael J. Jasaitis
Its: Vice President

AKRON HOLDING CORPORATION

KAISER ALUMINUM & CHEMICAL

INVESTMENT, INC.

By:
Name: John T. La Duc
Its: Vice President,
Chief Financial Officer
and Treasurer

By:
Name: John T. La Duc
Its: Vice President,
Chief Financial Officer
and Treasurer

ALPART JAMAICA, INC.

KAISER JAMAICA CORPORATION

By:
Name: John T. La Duc
Its: Vice President,
Chief Financial Officer
and Treasurer

By:
Name: John T. La Duc
Its: Vice President,
Chief Financial Officer
and Treasurer

KAISER ALUMINUM PROPERTIES,
INC.

KAISER ALUMINUM TECHNICAL
SERVICES, INC.

By:
Name: John T. La Duc
Its: Vice President,
Chief Financial Officer
and Treasurer

By:
Name: John T. La Duc
Its: Vice President,
Chief Financial Officer
and Treasurer

C-5

OXNARD FORGE DIE COMPANY, INC.

KAISER ALUMINIUM
INTERNATIONAL, INC.

By:
Name: John T. La Duc
Its: Vice President,
Chief Financial Officer
and Treasurer

By:
Name: John T. La Duc
Its: Vice President,
Chief Financial Officer
and Treasurer

KAISER ALUMINA AUSTRALIA
CORPORATION

KAISER FINANCE CORPORATION

By:
Name: John T. La Duc
Its: Vice President,
Chief Financial Officer
and Treasurer

By:
Name: John T. La Duc
Its: Vice President,
Chief Financial Officer
and Treasurer

KAISER MICROMILL HOLDINGS, LLC

KAISER SIERRA MICROMILLS, LLC

By:
Name: John T. La Duc
Its: Manager

By:
Name: John T. La Duc
Its: Vice President,
Chief Financial Officer
and Treasurer

KAISER TEXAS SIERRA MICROMILLS,
LLC

KAISER TEXAS MICROMILL
HOLDINGS, LLC

By:
Name: John T. La Duc
Its: Vice President,
Chief Financial Officer
and Treasurer

By:
Name: John T. La Duc
Its: Vice President,
Chief Financial Officer
and Treasurer

C-6

EXHIBIT D

SECOND AMENDMENT TO SUBSIDIARY PLEDGE AGREEMENT

THIS SECOND AMENDMENT TO SUBSIDIARY PLEDGE AGREEMENT
(this "Amendment"), dated as of December 11, 1995, is by and

among Akron Holding Corporation, an Ohio corporation, Kaiser
Alumina Australia Corporation, a Delaware corporation, Kaiser
Aluminium International, Inc., a Delaware corporation, Kaiser
Aluminum & Chemical Investment, Inc., a Delaware corporation,
Kaiser Aluminum Properties, Inc., a Delaware corporation, Kaiser
Aluminum Technical Services, Inc., a California corporation,
Kaiser Finance Corporation, a Delaware corporation, and Oxnard
Forge Die Company, Inc., a California corporation (collectively,
the "Existing Kaiser Subsidiaries" and individually, an "Existing

Kaiser Subsidiary"), Kaiser Micromill Holdings, LLC, a limited

liability company organized under the laws of Delaware, Kaiser
Sierra Micromills, LLC, a limited liability company organized
under the laws of Delaware, Kaiser Texas Sierra Micromills, LLC,
a limited liability company organized under the laws of Texas,
and Kaiser Texas Micromill Holdings, LLC, a limited liability
company organized under the laws of Texas (collectively, the "New

Kaiser Subsidiaries" and individually, a "New Kaiser

Subsidiary"), and BankAmerica Business Credit, Inc., a Delaware

corporation, as agent for the Secured Lenders (as defined in the
Credit Agreement referred to below) (in such capacity, together
with its successors and assigns in such capacity, the "Agent").

Capitalized terms used, but not defined, herein shall have the
meanings given to such terms in the Credit Agreement, as amended
by the Fifth Amendment.

W I T N E S S E T H:

WHEREAS, Kaiser Aluminum & Chemical Corporation, a
Delaware corporation (the "Company"), Kaiser Aluminum

Corporation, a Delaware corporation (the "Parent Guarantor"), the

various financial institutions that are or may from time to time
become parties to the Credit Agreement (collectively, the
"Lenders" and, individually, a "Lender"), and the Agent are

parties to the Credit Agreement, dated as of February 15, 1994,
as amended by the First Amendment to Credit Agreement, dated as
of July 21, 1994, the Second Amendment to Credit Agreement, dated
as of March 10, 1995, the Third Amendment to Credit Agreement and
Acknowledgment, dated as of July 20, 1995, and the Fourth
Amendment to Credit Agreement, dated as of October 17, 1995 (the
"Credit Agreement"); and

WHEREAS, as of the date hereof the Company, the Parent
Guarantor, the Lenders and the Agent are entering into a Fifth
Amendment to Credit Agreement (the "Fifth Amendment"); and

D-1

WHEREAS, the Existing Kaiser Subsidiaries and the Agent
are parties to the Subsidiary Pledge Agreement, dated as of
February 15, 1994, as amended by the First Amendment to
Subsidiary Pledge Agreement, dated as of July 21, 1994 (the
"Subsidiary Pledge Agreement"), and have agreed to amend the

Subsidiary Pledge Agreement as herein provided; and

WHEREAS, the New Kaiser Subsidiaries are required as a condition to the effectiveness of the Fifth Amendment to execute this Amendment; and

WHEREAS, the Required Lenders have consented to the execution and delivery of this Amendment by the Agent;

NOW, THEREFORE, the parties hereto agree as follows:

Section 1. Amendment to Subsidiary Pledge Agreement.

A. Section 3.1 of the Subsidiary Pledge

Agreement is hereby amended to read in its entirety as follows:

"SECTION 3.1. Organization, etc. Such Pledgor is a

corporation or a limited liability company validly organized or formed, as the case may be, and existing and in good standing under the laws of the jurisdiction of its incorporation or formation, as the case may be, and has full corporate power or company power, as the case may be, and authority to enter into and perform its obligations under this Agreement."

B. Section 3.2 of the Subsidiary Pledge

Agreement is hereby amended to read in its entirety as follows:

"SECTION 3.2. Due Authorization, Non-Contravention,

etc. The execution, delivery, and performance of this

Agreement are within the corporate powers or company powers, as the case may be, of such Pledgor, have been duly authorized by all necessary corporate action or company action, as the case may be, on the part of such Pledgor, and do not contravene such Pledgor's Organic Documents, or contravene any contractual restriction where such a contravention has a reasonable possibility of having a Materially Adverse Effect, or contravene any law or governmental regulation or court decree or order binding upon or affecting such Pledgor, or result in, or require the creation or imposition of, any Lien on any of such Pledgor's properties, other than pursuant to this Agreement or any other Loan Document."

D-2

Section 2. Addition of New Kaiser Subsidiaries.

On and after the Fifth Amendment Effective Date (as defined in the Fifth Amendment), the New Kaiser Subsidiaries shall be parties to the Subsidiary Pledge Agreement and the terms "Pledgor" and "Pledgors" (as used in the Subsidiary Pledge Agreement) shall include and also be a reference to the New Kaiser Subsidiaries.

Section 3. Pledgors' Representations and Warranties.

In order to induce the Agent to enter into this Amendment and to amend the Subsidiary Pledge Agreement in the manner provided herein, and to induce the Required Lenders to consent to such action by the Agent, each Pledgor (including each New Kaiser Subsidiary) represents and warrants to each Lender and the Agent that, as of the Fifth Amendment Effective Date after giving effect to the effectiveness of this Amendment, the following statements are true and correct in all material respects:

A. Authorization of Agreements. The execution and

delivery of this Amendment by such Pledgor and the performance of
the Subsidiary Pledge Agreement as amended by this Amendment (the
"Amended Agreement") by such Pledgor are within such Pledgor's

corporate powers or company powers, as the case may be, and have
been duly authorized by all necessary corporate action or company
action, as the case may be, on the part of such Pledgor.

B. No Conflict. The execution and delivery by such

Pledgor of this Amendment and the performance by such Pledgor of
the Amended Agreement do not:

(1) contravene such Pledgor's Organic Documents
or the Organizational Agreements;

(2) contravene the Senior Indenture or the
Subordinated Indenture or contravene any other contractual
restriction where such a contravention has a reasonable
possibility of having a Materially Adverse Effect or contravene
any law or governmental regulation or court decree or order
binding on or affecting such Pledgor or any of its Subsidiaries;
or

(3) result in, or require the creation or
imposition of, any Lien on any of such Pledgor's properties,
other than pursuant to the Loan Documents.

C. Binding Obligation. This Amendment has been duly

executed and delivered by such Pledgor and this Amendment and the
Amended Agreement constitute the legal, valid and binding
obligations of such Pledgor, enforceable against such Pledgor in

D-3

accordance with their respective terms, except as may be limited
by bankruptcy, insolvency, reorganization, moratorium or similar
laws relating to or limiting creditors' rights generally and by
general principles of equity.

D. Governmental Approval, Regulation, etc. No

authorization or approval or other action by, and no notice to or
filing with, any governmental authority or regulatory body or
other Person is required for the due execution, delivery or
performance of this Amendment by such Pledgor.

Section 4. Miscellaneous.

A. Reference to and Effect on the Subsidiary Pledge

Agreement and the Other Loan Documents.

(1) On and after the Fifth Amendment Effective
Date, each reference in the Subsidiary Pledge Agreement to "this
Agreement", "hereunder", "hereof", "herein" or words of like
import referring to the Subsidiary Pledge Agreement, and each
reference in the other Loan Documents to the "Subsidiary Pledge
Agreement", "thereunder", "thereof" or words of like import
referring to the Subsidiary Pledge Agreement shall mean and be a
reference to the Amended Agreement.

(2) Except as specifically amended by this
Amendment, the Subsidiary Pledge Agreement shall remain in full
force and effect and is hereby ratified and confirmed.

(3) The execution, delivery and performance of

this Amendment shall not, except as expressly provided herein, constitute a waiver of any provision of, or operate as a waiver of any right, power or remedy of the Agent or any Lender under, the Subsidiary Pledge Agreement.

B. Applicable Law. THIS AMENDMENT SHALL BE DEEMED TO

BE A CONTRACT MADE UNDER AND GOVERNED BY THE INTERNAL LAWS OF THE STATE OF NEW YORK, WITHOUT GIVING EFFECT TO SUCH LAWS RELATING TO CONFLICTS OF LAWS.

C. Headings. The various headings of this Amendment

are inserted for convenience only and shall not affect the meaning or interpretation of this Amendment or any provision hereof.

D. Counterparts. This Agreement may be executed by

the parties hereto in several counterparts and by the different parties on separate counterparts, each of which shall be deemed to be an original and all of which shall constitute together but one and the same instrument; signature pages may be detached from multiple separate counterparts and attached to a single

D-4

counterpart so that all signature pages are physically attached to the same document.

E. Severability. Any provision of this Amendment

which is prohibited or unenforceable in any jurisdiction shall, as to such provision and such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions of this Amendment or affecting the validity or enforceability of such provisions in any other jurisdiction.

IN WITNESS WHEREOF, this Amendment has been duly executed and delivered as of the day and year first above written.

BANKAMERICA BUSINESS CREDIT,
INC., as Agent

By:
Name: Michael J. Jasaitis
Its: Vice President

AKRON HOLDING CORPORATION

KAISER ALUMINUM & CHEMICAL
INVESTMENT, INC.

By:
Name: John T. La Duc
Its: Vice President,
Chief Financial Officer
and Treasurer

By:
Name: John T. La Duc
Its: Vice President,
Chief Financial Officer
and Treasurer

KAISER ALUMINUM PROPERTIES,
INC.

KAISER ALUMINUM TECHNICAL
SERVICES, INC.

By:
Name: John T. La Duc
Its: Vice President,
Chief Financial Officer
and Treasurer

By:
Name: John T. La Duc
Its: Vice President,
Chief Financial Officer
and Treasurer

OXNARD FORGE DIE COMPANY, INC.

KAISER ALUMINIUM
INTERNATIONAL, INC.

By:
Name: John T. La Duc
Its: Vice President,
Chief Financial Officer
and Treasurer

By:
Name: John T. La Duc
Its: Vice President,
Chief Financial Officer
and Treasurer

D-5

KAISER ALUMINA AUSTRALIA
CORPORATION

KAISER FINANCE CORPORATION

By:
Name: John T. La Duc
Its: Vice President,
Chief Financial Officer
and Treasurer

By:
Name: John T. La Duc
Its: Vice President,
Chief Financial Officer
and Treasurer

KAISER MICROMILL HOLDINGS, LLC

KAISER SIERRA MICROMILLS, LLC

By:
Name: John T. La Duc
Its: Manager

By:
Name: John T. La Duc
Its: Vice President,
Chief Financial Officer
and Treasurer

KAISER TEXAS SIERRA MICROMILLS,
LLC

KAISER TEXAS MICROMILL
HOLDINGS, LLC

By:
Name: John T. La Duc
Its: Vice President,
Chief Financial Officer
and Treasurer

By:
Name: John T. La Duc
Its: Vice President,
Chief Financial Officer
and Treasurer

D-6

EXHIBIT 11

KAISER ALUMINUM CORPORATION AND SUBSIDIARY COMPANIES

COMPUTATION OF EARNINGS (LOSS) PER COMMON AND COMMON EQUIVALENT SHARE
(In millions of dollars, except per share amounts)

| | Year Ended December 31, | | |
|---------------------------------------------------------------------------------------------------|-------------------------|------------|------------|
| | 1995 | 1994 | 1993 |
| Primary: | | | |
| Earnings: | | | |
| Income (loss) before extraordinary loss and cumulative effect of changes in accounting principles | \$ 60.3 | \$ (101.4) | \$ (123.1) |
| Dividends on preferred stock: | | | |
| Series A Shares | (9.1) | (12.6) | (6.3) |
| PRIDES | (8.5) | (7.5) | |
| Income (loss) available to common shareholders before extraordinary loss | 42.7 | (121.5) | (129.4) |
| Extraordinary loss - net | | (5.4) | (21.8) |
| Cumulative effect of changes in accounting principles - net | | | (507.3) |
| Net income (loss) available to common shareholders | \$ 42.7 | \$ (126.9) | \$ (658.5) |
| Shares (000): | | | |
| Weighted average common shares outstanding | 58,267 | 58,139 | 57,423 |
| Weighted average shares arising from redemption of Series A Shares | 3,705 | | |
| Weighted average shares arising from conversion of PRIDES | 29 | | |
| Assuming exercise of nonqualified stock options | 263 | | |
| Weighted average common and common equivalent shares | 62,264 | 58,139 | 57,423 |
| Primary earnings (loss) per common and common equivalent share: | | | |
| Income (loss) before extraordinary loss and cumulative effect of changes in accounting principles | \$.69 | \$ (2.09) | \$ (2.25) |
| Extraordinary | | | |
| loss | (.09) | (.38) | |
| Cumulative effect of changes in accounting principles - net | | | (8.84) |
| Net income (loss) | \$.69 | \$ (2.18) | \$ (11.47) |
| Fully diluted:(1) | | | |
| Earnings: | | | |
| Income before extraordinary loss | \$ 60.3 | | |
| Dividends on PRIDES | (8.5) | | |
| Net income available to common and common equivalent shareholders | \$ 51.8 | | |
| Shares (000): | | | |
| Weighted average common shares outstanding | 58,267 | | |
| Additional shares arising from redemption of Series A Shares | 13,127 | | |
| Additional shares arising from conversion of PRIDES | 151 | | |
| Assuming exercise of nonqualified stock options | 264 | | |
| Weighted average common and common equivalent shares | 71,809 | | |
| Fully diluted earnings per common and common equivalent share | \$.72 | | |

(1) As a result of the redemption of the Series A Shares and conversion of 181,700 shares of PRIDES during the 1995 period, fully diluted earnings per share are presented for such period, even though the result is antidilutive. For the 1994 and 1993

periods, common equivalent shares attributable to the preferred stock and non-qualified stock options were excluded from the calculation of weighted average shares because they were antidilutive.

<ARTICLE> 5

<LEGEND>

This schedule contains summary financial information extracted from the interim consolidated financial statements of the Company for twelve months ended December 31, 1995, and is qualified in its entirety by reference to such financial statements.

</LEGEND>

<CIK> 0000811596

<NAME> KAISER ALUMINUM CORPORATION

<MULTIPLIER> 1,000,000

| <PERIOD-TYPE> | YEAR | |
|------------------------------|-------------|-------|
| <FISCAL-YEAR-END> | DEC-31-1995 | |
| <PERIOD-START> | JAN-01-1995 | |
| <PERIOD-END> | DEC-31-1995 | |
| <CASH> | | 22 |
| <SECURITIES> | | 0 |
| <RECEIVABLES> | | 309 |
| <ALLOWANCES> | | 0 |
| <INVENTORY> | | 526 |
| <CURRENT-ASSETS> | | 933 |
| <PP&E> | | 1,110 |
| <DEPRECIATION> | | 0 |
| <TOTAL-ASSETS> | | 2,813 |
| <CURRENT-LIABILITIES> | | 601 |
| <BONDS> | | 0 |
| <PREFERRED-MANDATORY> | | 0 |
| <PREFERRED> | | 0 |
| <COMMON> | | 1 |
| <OTHER-SE> | | 57 |
| <TOTAL-LIABILITY-AND-EQUITY> | | 2,813 |
| <SALES> | | 2,238 |
| <TOTAL-REVENUES> | | 2,238 |
| <CGS> | | 1,798 |
| <TOTAL-COSTS> | | 1,798 |
| <OTHER-EXPENSES> | | 229 |
| <LOSS-PROVISION> | | 0 |
| <INTEREST-EXPENSE> | | 94 |
| <INCOME-PRETAX> | | 103 |
| <INCOME-TAX> | | 37 |
| <INCOME-CONTINUING> | | 60 |
| <DISCONTINUED> | | 0 |
| <EXTRAORDINARY> | | 0 |
| <CHANGES> | | 0 |
| <NET-INCOME> | | 60 |
| <EPS-PRIMARY> | | .69 |
| <EPS-DILUTED> | | .72 |