
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2000

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)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes x No

At July 31, 2000, the registrant had 79,543,061 shares of Common Stock outstanding.

KAISER ALUMINUM CORPORATION AND SUBSIDIARY COMPANIES

PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

CONSOLIDATED BALANCE SHEETS
(In millions of dollars)

	June 30, 2000	December 31, 1999
ASSETS	(Unaudited)	
Current assets:		
Cash and cash equivalents	$ 19.9	$ 21.2
Receivables:		
Trade, net	177.7	154.1
Other	187.4	106.9
Inventories	479.6	546.1
Prepaid expenses and other current assets	106.8	145.6
Total current assets	971.4	973.9
Investments in and advances to unconsolidated affiliates	85.4	96.9
Property, plant, and equipment - net	1,078.1	1,053.7
Deferred income taxes	445.0	440.0
Other assets	619.5	634.3
Total	$ 3,199.4	$ 3,198.8
LIABILITIES & STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 243.6	$ 231.7
Accrued interest	37.6	37.7
Accrued salaries, wages, and related expenses	60.3	62.1
Accrued postretirement medical benefit obligation - current portion	51.5	51.5
Other accrued liabilities	160.4	168.8
Payable to affiliates	84.1	85.8
Long-term debt - current portion	1.5	.3
Total current liabilities	639.0	637.9
Long-term liabilities	686.8	727.1
Accrued postretirement medical benefit obligation	672.0	678.3
Long-term debt	995.8	972.5
Minority interests	117.1	117.7
Commitments and contingencies		
Stockholders' equity:		
Common stock	.8	.8
Additional capital	537.5	536.8
Accumulated deficit	(448.4)	(471.1)
Accumulated other comprehensive income - additional minimum pension liability	(1.2)	(1.2)
Total stockholders' equity	88.7	65.3
Total	$ 3,199.4	$ 3,198.8

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

KAISER ALUMINUM CORPORATION AND SUBSIDIARY COMPANIES

STATEMENTS OF CONSOLIDATED INCOME (LOSS)
(Unaudited)
(In millions of dollars, except share amounts)

	Quarter Ended June 30,		Six Months Ended June 30,	
	2000	1999	2000	1999
Net sales	$ 542.5	$ 525.0	$ 1,108.2	$ 1,004.4
Costs and expenses:				
Cost of products sold	443.4	473.9	924.1	933.8
Depreciation and amortization	20.3	24.1	39.9	48.5
Selling, administrative, research and development, and general	27.3	26.3	55.8	54.4
Total costs and expenses	491.0	524.3	1,019.8	1,036.7
Operating income (loss)	51.5	.7	88.4	(32.3)
Other income (expense):				
Interest expense	(28.2)	(27.4)	(56.6)	(55.1)
Other - net	(6.5)	1.2	3.6	2.5
Income (loss) before income taxes and minority interests	16.8	(25.5)	35.4	(84.9)
(Provision) benefit for income taxes	(6.4)	8.6	(13.7)	28.8
Minority interests	.6	1.2	1.0	2.2
Net income (loss)	$ 11.0	$ (15.7)	$ 22.7	$ (53.9)
Earnings (loss) per share:				
Basic	$ .14	$ (.20)	$ .29	$ (.68)
Diluted	$ .14	$ (.20)	$ .29	$ (.68)
Weighted average shares outstanding (000):				
Basic	79,541	79,377	79,474	79,266
Diluted	79,541	79,377	79,474	79,266

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

KAISER ALUMINUM CORPORATION AND SUBSIDIARY COMPANIES

STATEMENTS OF CONSOLIDATED CASH FLOWS
(Unaudited)
(In millions of dollars)

	Six Months Ended June 30,	
	2000	1999
Cash flows from operating activities:		
Net income (loss)	$ 22.7	$ (53.9)
Adjustments to reconcile net income (loss) to net cash used by operating activities:		

Depreciation and amortization (including deferred financing costs of $2.2 and $2.1)	42.1	50.6
Gain on sale of interest in AKW joint venture	-	(50.5)
Equity in loss (income) of unconsolidated affiliates, net of distributions	7.9	(4.2)
Minority interests	(1.0)	(2.2)
(Increase) decrease in receivables	(104.1)	11.0
Decrease in inventories	66.5	18.8
Decrease (increase) in prepaid expenses and other current assets	30.4	(37.4)
Decrease in accounts payable (associated with operating activities) and accrued interest	(12.1)	(25.2)
(Increase) decrease in payable to affiliates and other accrued liabilities	(10.1)	4.3
Increase (decrease) in accrued and deferred income taxes	4.7	(36.5)
(Decrease) increase in net long-term assets and liabilities	(49.1)	11.1
Other	1.2	1.3
Net cash used by operating activities	(.9)	(112.8)
Cash flows from investing activities:		
Capital expenditures	(85.8)	(30.3)
Accounts payable - Gramercy-related capital expenditures	23.9	-
Gramercy-related property damage insurance recoveries	24.0	-
Net proceeds from disposition of property and investments	15.5	70.9
Other	1.6	(.3)
Net cash provided (used) by investing activities	(20.8)	40.3
Cash flows from financing activities:		
Borrowings under revolving credit facility, net	27.2	-
Repayments of long-term debt	(4.3)	(.3)
Capital stock issued	-	1.3
Decrease in restricted cash, net	-	.8
Redemption of minority interests' preference stock	(2.5)	(1.4)
Net cash provided by financing activities	20.4	.4
Net decrease in cash and cash equivalents during the period	(1.3)	(72.1)
Cash and cash equivalents at beginning of period	21.2	98.3
Cash and cash equivalents at end of period	$ 19.9	$ 26.2
Supplemental disclosure of cash flow information:		
Interest paid, net of capitalized interest	$ 54.5	$ 53.0
Income taxes paid	7.6	8.8

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

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS
(In millions of dollars, except prices and per share amounts)

1. GENERAL

Kaiser Aluminum Corporation (the "Company") is a subsidiary of MAXXAM Inc. ("MAXXAM"). MAXXAM and one of its wholly owned subsidiaries together own approximately 63% of the Company's

Common Stock with the remaining approximately 37% publicly held. The Company operates through its subsidiary, Kaiser Aluminum & Chemical Corporation ("KACC").

The foregoing unaudited interim consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and the rules and regulations of the Securities and Exchange Commission. Accordingly, these financial statements do not include all of the disclosures required by generally accepted accounting principles for complete financial statements. These unaudited interim consolidated financial statements should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 1999. In the opinion of management, the unaudited interim consolidated financial statements furnished herein include all adjustments, all of which are of a normal recurring nature, necessary for a fair statement of the results for the interim periods presented.

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 amounts 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 operations.

Operating results for the quarter and six-month periods ended June 30, 2000, are not necessarily indicative of the results that may be expected for the year ending December 31, 2000.

LABOR RELATED COSTS

KACC has been operating five of its U.S. facilities with salaried employees and other workers as a result of the September 30, 1998, strike by the United Steelworkers of America ("USWA") and the subsequent "lock-out" by KACC in January 1999. As previously announced, in June 2000, KACC and USWA representatives agreed to a methodology to resolve the remaining differences between the parties. During July 2000, the USWA announced that its members had voted to accept this methodology. Under the agreement between KACC and the USWA, the parties continued to negotiate certain matters until mid-August. Since KACC and the USWA were unable to reach a complete agreement, the parties will proceed with binding arbitration. The arbitration will be completed by mid-September 2000 and it is expected that the USWA workers will return to the plants during September and October 2000.

As certain financial terms remain to be arbitrated, the Company cannot currently estimate the financial statement impact of the pending labor settlement. While KACC expects that many of its labor and financial objectives will be achieved in the pending settlement, it is anticipated that the labor settlement will result in certain one time charges and re-integration costs.

The Company has continued to accrue certain benefits (such as pension and other postretirement benefit costs/liabilities) for the USWA members during the period of the strike and subsequent lock-out. For purposes of computing the benefit-related costs and liabilities to be reflected in the accompanying interim consolidated financial statements, the Company based its accruals on the terms of the previously existing (expired) USWA contract. Any differences between the amounts accrued and the amounts ultimately agreed to as a result of the above-described process will be reflected in future results during the term of any new contract.

RECENT ACCOUNTING PRONOUNCEMENTS

In June 1998, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 133, Accounting for Derivative Instruments and Hedging Activities. SFAS No. 133 requires companies to recognize all derivative instruments as assets or liabilities in the balance sheet and to measure those instruments at fair value. Under SFAS No. 133, the Company will be required to "mark-to-market" its hedging positions at each period-end in advance of recording the physical transactions to which the hedges relate. Changes in the fair value of the Company's open hedging positions will be reflected as an increase or reduction in stockholders' equity through comprehensive income. The impact of the changes in fair value of the Company's hedging positions will reverse out of comprehensive income (net of any fluctuations in other "open" positions) and will be reflected in traditional net income when the subsequent physical transactions occur. Currently, the dollar amount of the Company's comprehensive income adjustments is not significant so there is not a significant difference between "traditional" net income and comprehensive income. However, differences between comprehensive income and traditional net income may become significant in future periods as SFAS No. 133 will result in fluctuations in comprehensive income and stockholders' equity in periods of price volatility, despite the fact that the Company's cash flow and earnings will be "fixed" to the extent hedged. This result is contrary to the intent of the Company's hedging program, which is to "lock-in" a price (or range of prices) for products sold/used so that earnings and cash flows are subject to reduced risk of volatility.

Adoption of SFAS No. 133 is required on or before January 1, 2001. The Company will likely implement SFAS No. 133 as of January 1, 2001.

EARNINGS (LOSS) PER SHARE

Basic - Basic earnings (loss) per share is computed by dividing net income (loss) by the weighted average number of shares of Common Stock outstanding during the period including the weighted average impact of the shares of Common Stock issued during the year from the date(s) of issuance.

Diluted - The impact of outstanding stock options was excluded from the computation of diluted earnings (loss) per share for the quarter and six-month periods ended June 30, 2000 and 1999, as its effect would have been antidilutive.

2. INCIDENT AT GRAMERCY FACILITY

In July 1999, KACC's Gramercy, Louisiana alumina refinery was extensively damaged by an explosion in the digestion area of the plant. A number of employees were injured in the incident, several of them severely. As a result of the incident, alumina production at the facility was completely curtailed. Construction on the damaged part of the facility began during the first quarter of 2000. Initial production at the plant is currently expected to commence during the third quarter of 2000. Based on current estimates, full production is expected to be achieved during the first quarter of 2001. KACC has received the regulatory permit required to operate the plant once the facility is ready to resume production.

The cause of the incident is under investigation by KACC and governmental agencies. In January 2000, the U.S. Mine Safety and Health Administration ("MSHA") issued 21 citations and in March 2000 proposed that KACC be assessed a penalty of $.5 in connection with its investigation of the incident. The citations allege, among other things, that certain aspects of the plant's operations were unsafe and that such mode of operation contributed to the explosion. KACC disagrees with the substance of the citations and has challenged them and the associated penalty. It is possible that other civil or criminal fines or penalties could be levied against KACC. However, as more fully explained below, based on what is known to date and discussions with the Company's advisors, the Company believes that the financial impact of this incident on operating results (in excess of insurance deductibles and self-retention provisions) will be largely offset by insurance coverage. Deductibles and self-retention provisions under the insurance coverage for the incident total $5.0, which amounts were charged to Cost of products sold in the third quarter of 1999.

KACC has significant amounts of insurance coverage related to the Gramercy incident. KACC's insurance coverage has five separate components: property damage, clean-up and site preparation, business interruption, liability and workers' compensation. The insurance coverage components are discussed below.

Property Damage. KACC's insurance policies provide that KACC will be reimbursed for the costs of repairing or rebuilding the damaged portion of the facility using new materials of like kind and quality with no deduction for depreciation. In 1999, based on discussions with the insurance carriers and their representatives and third party engineering reports, KACC recorded a minimum expected property damage reimbursement amount of $100. The amount was classified as a receivable in Other assets, as such proceeds, when received, will be invested in property, plant and equipment.

During the quarter ended June 30, 2000, there was approximately $48.0 of Gramercy-related capital spending. During the quarter ended June 30, 2000, $24.0 of the insurance proceeds received were reflected as a reduction of the minimum property damage receivable based on the percentage of minimum expected costs to be funded by insurance proceeds to total rebuild costs. The balance of the minimum property damage receivable of $76.0 will be reduced during the last six months of 2000 as insurance recoveries are received and construction continues.

Clean-up and Site Preparation. The Gramercy facility incurred incremental costs for clean-up and other activities during 1999 and has continued to incur such costs during 2000. These clean-up and site preparation activities have been offset by accruals of approximately $24.9, of which $6.6 and $10.9 were accrued during the quarter and six-month periods ended June 30, 2000, for estimated insurance recoveries.

Business Interruption. KACC's insurance policies provide for the reimbursement of specified continuing expenses incurred during the interruption period plus lost profits (or less expected losses) plus other expenses incurred as a result of the incident. Operations at the Gramercy facility and a sister facility in Jamaica, which supplies bauxite to Gramercy, will continue to incur operating expenses until full production at the Gramercy facility is restored. KACC will also incur increased costs as a result of agreements to supply certain of Gramercy's major customers with alumina, despite the fact that KACC had declared force majeure with respect to the contracts shortly after the incident. KACC is purchasing alumina from third parties, in excess of the amounts of alumina available from other KACC-owned facilities, to supply these customers' needs as well as to meet intersegment requirements. The excess cost of such open market purchases is expected to be substantially offset by insurance recoveries. However, if certain sublimits within KACC's insurance coverage were deemed to apply, the Company's and KACC's results could be negatively affected. In consideration of the foregoing items, as of June 30, 2000, KACC had recorded expected business interruption insurance recoveries totaling $106.8, of which $40.5 and $65.8 were recorded during the quarter and six-month periods ended June 30, 2000, as a reduction of Cost of products sold. These amounts substantially offset actual expenses incurred during the periods. Such business interruption insurance amounts represent estimates of KACC's business interruption coverage based on discussions with the insurance carriers and their representatives and are therefore subject to change.

Since production has been completely curtailed at the Gramercy facility, KACC has, for the time being, suspended depreciation at the facility. Depreciation expense for the first six months of 1999 was approximately $6.0. Once production of the facility is restored, depreciation will re-commence. Such depreciation is expected to exceed prior historical rates primarily due to the increased capital costs on the newly constructed assets.

Liability. The incident has also resulted in more than sixty individual and class action lawsuits being filed against KACC alleging, among other things, property damage and personal injury. In addition, a claim for alleged business interruption losses has been made by a neighboring business. The aggregate amount of damages sought in the lawsuits and other claims cannot be determined at this time; however, KACC does not currently believe the damages will exceed the amount of coverage under its liability policies.

Workers' Compensation. Claims relating to all of the injured employees are expected to be covered under KACC's workers' compensation or liability policies. However, the aggregate amount of workers' compensation claims cannot be determined at this time and it is possible that such claims could exceed KACC's coverage limitations. While it is presently impossible to determine the aggregate amount of claims that may be incurred, or whether they will exceed KACC's coverage limitations, KACC currently believes that any amount in excess of the coverage limitations will not have a material effect on the Company's consolidated financial position or liquidity. However, it is possible that as additional facts become available, additional charges may be required and such charges could be material to the period in which they are recorded.

Timing of Insurance Recoveries. From the date of the Gramercy incident through June 30, 2000, KACC had expended or incurred costs or losses associated with the Gramercy incident (that were not capital expenditures) totaling $131.7, consisting of clean-up, site preparation and business interruption costs. From the date of the Gramercy incident through June 30, 2000, $88.1 of insurance recoveries related to these costs had been received. In addition, during the second quarter of 2000, KACC spent approximately $48.0 on Gramercy-related construction activities and received insurance recoveries of $24.0 for capital expenditures related to the minimum property damage receivable. Gramercy-related capital spending prior to the second quarter of 2000 was not significant. KACC continues to work with the insurance carriers to maximize the amount of recoveries and to minimize, to the extent possible, the period of time between when KACC expends funds and when it is reimbursed. However, KACC will likely have to continue to fund an average of 30 - 60 days of property damage and business interruption activity, unless some other arrangement is agreed with the insurance carriers, and such amounts will be significant. The Company believes it has sufficient financial resources to fund the construction and business interruption costs on an interim basis. However, no assurances can be given in this regard.

3. WASHINGTON SMELTERS' OPERATING LEVEL

As previously announced, as a result of unprecedented high market prices for power in the Pacific Northwest, the Company has temporarily curtailed approximately 128,000 tons of its annual primary aluminum production at the Tacoma and Mead, Washington smelters and has sold 100 megawatts of power that it had under contract through June 30, 2001. As a result of the curtailment, the Company will avoid the need to purchase power on a variable cost basis. Additionally, the sale of power is expected to substantially mitigate the cash impact of the potline curtailment over the contract period for which the power was sold. To implement the curtailment, the Company has temporarily curtailed the two and one-half operating potlines at its Tacoma smelter and two and one-half out of a total of eight potlines at its Mead smelter. One-half of a potline at the Tacoma smelter was already curtailed.

As a result of the sale of the power, the Company recorded a net pre-tax gain of approximately $15.8, which amount was composed of gross proceeds of $31.3 offset by incremental excess power costs in the second quarter, employee termination expenses and other fixed commitments. The net gain was recorded as a reduction of Cost of products sold.

4. INVENTORIES

The classification of inventories is as follows:

	June 30, 2000	December 31, 1999
Finished fabricated aluminum products	$ 92.3	$ 118.5
Primary aluminum and work in process	166.0	189.4
Bauxite and alumina	96.0	124.1
Operating supplies and repair and maintenance parts	125.3	114.1
Total	$ 479.6	$ 546.1

Substantially all product inventories are stated at last-in, first-out (LIFO) cost, not in excess of market. Replacement cost is not in excess of LIFO cost.

5. CONTINGENCIES

ENVIRONMENTAL CONTINGENCIES

The Company and KACC are subject to a number of environmental laws, to fines or penalties assessed for alleged breaches of such environmental laws, and to claims and litigation based upon such laws. KACC currently is subject to a number of claims 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 June 30, 2000, the balance of such accruals, which are primarily included in Long-term liabilities, was $46.6. 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 actions 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 2000 through 2004 and an aggregate of approximately $20.0 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 $41.0. As the resolution of these matters is subject to further regulatory review and approval, no specific assurance can be given as to when the factors upon which a substantial portion of this estimate is based can be expected to be resolved. However, the Company is currently working to resolve certain of these matters.

The Company believes that KACC has insurance coverage available to recover certain incurred and future environmental costs and is actively pursuing claims in this regard. No assurances can be given that the Company will be successful in attempts to recover incurred or future costs from insurers or that the amount of recoveries received will ultimately be adequate to cover costs incurred.

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 sold for at least 20 years. At June 30, 2000, the number of such claims pending was approximately 110,000, as compared with 100,000 at December 31, 1999. During 1999, approximately 29,300 of such claims were received and 15,700 were settled or dismissed. During the quarter and six-month periods ended June 30, 2000, approximately 8,300 and 14,700 of such claims were received and 3,600 and 4,700 of such claims were settled or dismissed. The foregoing claim and settlement figures as of and for the quarter and six-month periods ended June 30, 2000, do not reflect the fact that as of June 30, 2000, KACC had reached agreements under which it expects to settle approximately 71,800 of the pending asbestos-related claims over an extended period.

The Company maintains a liability for estimated asbestos-related costs for claims filed to date and an estimate of claims to be filed over a 10 year period (i.e., through 2009). The Company's estimate is based on the Company's view, at each balance sheet date, of the current and anticipated number of asbestos-related claims, the timing and amounts of asbestos-related payments, the status of ongoing litigation and settlement initiatives, and the advice of Wharton Levin Ehrmantraut Klein & Nash, P.A., with respect to the current state of the law related to asbestos claims. However, there are inherent uncertainties involved in estimating asbestos-related costs and the Company's actual costs could exceed the Company's estimates due to changes in facts and circumstances after the date of each estimate. Further, while the Company does not presently believe there is a reasonable basis for estimating asbestos-related costs beyond 2009 and, accordingly, no accrual has been recorded for any costs which may be incurred beyond 2009, the Company expects that such costs may continue beyond 2009, and that such costs could be substantial. As of June 30, 2000, an estimated asbestos-related cost accrual of $377.8, before consideration of insurance recoveries, has been reflected in the accompanying interim consolidated financial statements primarily in Long-term liabilities. The Company estimates that annual future cash payments for asbestos-related costs will range from approximately $75.0 to $100.0 in the years 2000 to 2002, approximately $35.0 for each of the years 2003 and 2004, and an aggregate of approximately $50.0 thereafter.

The Company believes that KACC has insurance coverage available to recover a substantial portion of its asbestos-related costs. Although the Company has settled asbestos-related coverage matters with certain of its insurance carriers, other carriers have not yet agreed to settlements. The timing and amount of future recoveries from these and other insurance carriers will depend on the pace of claims review and processing by such carriers and on the resolution of any disputes regarding coverage under such policies. The Company believes that substantial recoveries from the insurance carriers are probable. The Company reached this conclusion after considering its prior insurance-related recoveries in respect of asbestos-related claims, existing insurance policies, and the advice of Heller Ehrman White & McAuliffe LLP with respect to applicable insurance coverage law relating to the terms and conditions of those policies. Accordingly, an estimated aggregate insurance recovery of $319.9, determined on the same basis as the asbestos-related cost accrual, is recorded primarily in Other assets at June 30, 2000. However, no assurance can be given that KACC will be able to project similar recovery percentages for future asbestos-related claims or that the amounts related to future asbestos-related claims will not exceed KACC's aggregate insurance coverage.

Management continues to monitor claims activity, the status of lawsuits (including settlement initiatives), legislative developments, and costs incurred in order to ascertain whether an adjustment to the existing accruals should be made to the extent that historical experience may differ significantly from the Company's underlying assumptions. 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 or liquidity. However, as the Company's estimates are periodically re-evaluated, additional charges may be necessary and such charges could be material to the results of the period in which they are recorded.

LABOR MATTERS

In connection with the USWA strike and subsequent lock-out by KACC, certain allegations of unfair labor practices ("ULPs") have been filed with the National Labor Relations Board ("NLRB") by the USWA. As previously disclosed, KACC responded to all such allegations and believes that they were without merit. In July 1999, the Oakland, California, regional office of the NLRB dismissed all material charges filed against KACC. In September 1999, the union filed an appeal of this ruling with the NLRB general counsel's office in Washington, D.C. In April 2000, KACC was notified by the general counsel of the NLRB of the dismissal of twenty-two of twenty-four allegations of ULPs previously brought against it by the USWA. In June 2000, the general counsel of the NLRB directed the Oakland Regional Office to issue a complaint on two allegations for trial before an administrative law judge. The Regional Office issued such a complaint in late June 2000. A trial date has been set for November 2000. Any outcome from the trial before the administrative law judge would be subject to an additional appeal either by the USWA or KACC. This process could take months or years. If these proceedings eventually resulted in a definitive ruling against KACC, it could be obligated to provide back pay to USWA members at the five plants and such amount could be significant. However, while uncertainties are inherent in the final outcome of such matters, the Company believes that the resolution of the alleged ULPs should not result in 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.

See Note 10 of Notes to Consolidated Financial Statements for the year ended December 31, 1999.

6. DERIVATIVE FINANCIAL INSTRUMENTS AND RELATED HEDGING PROGRAMS

At June 30, 2000, the net unrealized loss on KACC's position in aluminum forward sales and option contracts, (excluding the impact of those contracts discussed below which have been marked to market), energy forward purchase and option contracts, and forward foreign exchange contracts, was approximately $24.9 (based on applicable quarter-end published market prices). As KACC's hedging activities are generally designed to lock-in a specified price or range of prices, gains or losses on the derivative contracts utilized in these hedging activities will generally be offset by losses or gains, respectively, on the transactions being hedged.

ALUMINA AND ALUMINUM

The Company's earnings 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. Primary aluminum prices have historically been subject to significant cyclical price fluctuations. Alumina prices as well as fabricated aluminum product prices (which vary considerably among products) are significantly influenced by changes in the price of primary aluminum but generally lag behind primary aluminum price changes by up to three months. Since 1993, the Average Midwest United States transaction price for primary aluminum has ranged from approximately $.50 to $1.00 per pound.

From time to time in the ordinary course of business, KACC enters into hedging transactions to provide price risk management in respect of the net exposure of earnings and cash flows resulting from (I) anticipated sales of alumina, primary aluminum and fabricated aluminum products, less (ii) expected purchases of certain items, such as aluminum scrap, rolling ingot, and bauxite, whose prices fluctuate with the price of primary aluminum. Forward sales contracts are used by KACC to effectively fix the price that KACC will receive for its shipments. KACC also uses option contracts (I) to establish a minimum price for its product shipments, (ii) to establish a "collar" or range of prices for KACC's anticipated sales, and/or (iii) to permit KACC to realize possible upside price movements. As of June 30, 2000, KACC had entered into option contracts that established a price range for 136,000, 362,000 and 161,000 tons* of primary aluminum with respect to 2000, 2001 and 2002, respectively.

Additionally, as of June 30, 2000, KACC had also entered into a series of transactions with a counterparty that will provide KACC with a premium over the forward market prices at the date of the transaction for 2,000 tons of primary aluminum per month during the period July 2000 through June 2001. KACC also contracted with the counterparty to receive certain fixed prices (also above the forward market prices at the date of the transaction) on 4,000 tons of primary aluminum per month over a three year period commencing October 2001, unless market prices during certain periods decline below a stipulated "floor" price, in which case, the fixed price sales portion of the transactions terminate. The price at which the October 2001 and later transactions terminate is well below current market prices. While the Company believes that the October 2001 and later transactions are consistent with its stated hedging objectives, these positions do not qualify for treatment as a "hedge" under current accounting guidelines. Accordingly, these positions will be "marked-to-market" each period. For the quarter ended June 30, 2000, the Company recorded mark-to-market pre-tax charges of $6.0 and for the six months ended June 30, 2000, recorded mark-to-market pre-tax gains of $8.4 in Other income (expense) associated with the transactions described in this paragraph.

As of June 30, 2000, KACC had sold forward virtually all of the alumina available to it in excess of its projected internal

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

smelting requirements for 2000, 2001 and 2002 at prices indexed to future prices of primary aluminum.

ENERGY

KACC is exposed to energy price risk from fluctuating prices for fuel oil, diesel oil and natural gas consumed in the production process. KACC from time to time in the ordinary course of business enters into hedging transactions with major suppliers of energy and energy related financial instruments. As of June 30, 2000, KACC held option contracts for the purchase of approximately 13,500 MMBtu of natural gas per day for the period October 2000 through December 2000 and 9,500 MMBtu of natural gas per day for the period January 2001 through June 2001. As of June 30, 2000, KACC also held a combination of fixed price purchase and option contracts for an average of 232,000 barrels per month of fuel oil for the remainder of 2000.

FOREIGN CURRENCY

KACC enters into forward exchange contracts to hedge material cash commitments to foreign subsidiaries or affiliates. At June 30, 2000, KACC had net forward foreign exchange contracts for the purchase of 149.5 Australian dollars from July 2000 through July 2001, in respect of its Australian dollar dominated commitments from July 2000 through July 2001. In addition, KACC has entered into option contracts that establish a price range for the purchase of 30.0 Australian dollars for the period July 2000 through June 2001.

See Note 11 of the Notes to Consolidated Financial Statements for the year ended December 31, 1999.

7. SIGNIFICANT ACQUISITIONS AND DISPOSITIONS

In May 2000, KACC, through a wholly-owned subsidiary, acquired the assets of a drawn tube aluminum fabricating operation in Chandler, Arizona. Total consideration for the acquisition was $16.1, consisting of cash payments of $15.1 and assumed current liabilities of $1.0. The purchase price was allocated to the assets acquired based on their estimated fair values, of which approximately $1.1 was allocated to property, plant and equipment and $2.8 was allocated to receivables, inventory and prepaid expenses. The excess of the purchase price over the fair value of the assets acquired (goodwill) was approximately $12.2 and is being amortized on a straight-line basis over 20 years. The acquisition is part of the Company's continued emphasis on its Engineered products business unit. Total revenues for the Chandler facility were approximately $13.8 for the year ended December 31, 1999 (unaudited).

During the quarter ended March 31, 2000, KACC, in the ordinary course of business, sold certain non-operating properties for total proceeds of approximately $12.0. The sale did not have a material impact on the Company's operating results for the six-month period ended June 30, 2000.

In February 2000, KACC completed the previously announced sale of its Micromill assets and technology to a third party for a nominal payment at closing and future payments based on subsequent performance and profitability of the Micromill technology. The sale did not have a material impact on the Company's operating results for the six-month period ended June 30, 2000.

8. SUBSEQUENT EVENT

During August 2000, KACC agreed to sell certain power that it had under contract for the third quarter of 2001. The power being sold is in excess of KACC's current and expected future operating requirements. The power sale, which is subject to final documentation, will yield net proceeds, and is expected to result in a pre-tax gain, of approximately $40.0 during the third quarter of 2000.

9. INTERIM OPERATING SEGMENT INFORMATION

The Company uses a portion of its bauxite, alumina and primary aluminum production for additional processing at its downstream facilities. Transfers between business units are made at estimated market prices. The accounting policies of the segments are the same as those described in Note 1 of Notes to Consolidated Financial Statements for the year ended December 31, 1999. Business unit results are evaluated internally by management before any allocation of corporate overhead and without any charge for income taxes or interest expense. See Note 12 of Notes to Consolidated Financial Statements for the year ended December 31, 1999.

Financial information by operating segment for the quarters ended June 30, 2000 and 1999 is as follows:

	Quarter Ended June 30,		Six Months Ended June 30,	
	2000	1999	2000	1999
Net Sales:				
Bauxite and Alumina:				
Net sales to unaffiliated customers	$ 120.2	$ 110.8	$ 221.0	$ 200.5
Intersegment sales	29.5	29.6	86.3	52.6
	149.7	140.4	307.3	253.1
Primary Aluminum:				
Net sales to unaffiliated customers	130.6	100.5	257.7	189.6
Intersegment sales	57.5	63.1	139.6	112.2
	188.1	163.6	397.3	301.8
Flat-Rolled Products	121.4	155.3	275.1	303.6
Engineered Products	145.0	137.8	304.5	271.3
Minority interests	25.3	20.6	49.9	39.4
Eliminations	(87.0)	(92.7)	(225.9)	(164.8)
	$ 542.5	$ 525.0	$ 1,108.2	$ 1,004.4
Operating income (loss):				
Bauxite and Alumina	$ 13.5	$ (3.5)	$ 29.9	$ (11.3)
Primary Aluminum (3)	34.4	1.6	59.9	(20.5)
Flat-Rolled Products	7.2	7.5	10.3	14.9
Engineered Products	11.9	10.7	25.2	17.6
Micromill (5)	-	(3.0)	(.6)	(6.3)
Eliminations	1.2	1.9	(2.9)	5.5
Corporate and Other	(16.7)	(14.5)	(33.4)	(32.2)
	$ 51.5	$ .7	$ 88.4	$ (32.3)
Depreciation and amortization:				
Bauxite and Alumina	$ 6.0	$ 8.9	$ 12.0	$ 17.8
Primary Aluminum	6.2	7.0	12.4	14.3
Flat-Rolled Products	4.1	4.1	8.2	8.2
Engineered Products	3.5	2.6	6.3	5.3
Micromill (5)	-	.7	.2	1.4
Corporate and Other	.5	.8	.8	1.5
	$ 20.3	$ 24.1	$ 39.9	$ 48.5

(1) Net sales for the quarter and six-month periods ended June 30, 2000, included approximately 68,000 tons and 145,000 tons, respectively, of alumina purchased from third parties and resold to certain unaffiliated customers of the Gramercy facility and 15,000 tons and 54,000 tons, respectively, of alumina purchased from third parties and transferred to the Company's Primary aluminum business unit.

(2) Operating income (loss) for the quarter and six-month periods ended June 30, 2000, included estimated business interruption insurance recoveries totaling $40.5 and $65.8, respectively.

(3) Operating income (loss) for the quarter and six-month

periods ended June 30, 2000, included a non-recurring pre-tax gain of $15.8 relating to the sale of power. Operating income (loss) for the quarter and six-month periods ended June 30, 1999, included potline restart costs of $2.5 and $9.6, respectively.

(4) Operating income (loss) for the quarter and six-month periods ended June 30, 2000, included $.7 of non-recurring pre-tax costs related to a product line exit.

(5) KACC's Micromill assets and technology were sold to a third party in February 2000.

(6) Operating income (loss) for the quarter and six-month periods ended June 30, 2000, included approximately $1.5 and $3.5, respectively, of non-recurring expenses related to Corporate staff cost reduction and efficiency initiatives.

(7) Depreciation was suspended for the Gramercy facility for the last six months of 1999 and the first six months of 2000, as a result of the July 5, 1999, incident. Depreciation expense for the Gramercy facility for the six months ended June 30, 1999, was approximately $6.0.

Excluding the capital expenditures made during the first six months of 2000 related to the rebuilding of the Gramercy facility, which affected the Bauxite and Alumina segment, and the purchase of the capital assets of a drawn tube aluminum fabricating operation, which affected the Engineering Products segment, there were no material changes in segment assets since December 31, 1999.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This section should be read in conjunction with the response to Item 1, Part I, of this Report.

This section contains statements which constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. These statements appear in a number of places in this section (see, for example, "Recent Events and Developments," "Results of Operations," and "Liquidity and Capital Resources"). Such statements can be identified by the use of forward-looking terminology such as "believes," "expects," "may," "estimates," "will," "should," "plans" or "anticipates" or the negative thereof or other variations thereon or comparable terminology, or by discussions of strategy. Readers are cautioned that any such forward-looking statements are not guarantees of future performance and involve significant risks and uncertainties, and that actual results may vary materially from those in the forward-looking statements as a result of various factors. These factors include the effectiveness of management's strategies and decisions, general economic and business conditions, developments in technology, new or modified statutory or regulatory requirements, and changing prices and market conditions. This section and Part I, Item 1. "Business - Factors Affecting Future Performance" in the Company's Annual Report on Form 10-K for the year ended December 31, 1999, each identify other factors that could cause actual results to vary. No assurance can be given that these are all of the factors that could cause actual results to vary materially from the forward-looking statements.

RECENT EVENTS AND DEVELOPMENTS

INCIDENT AT GRAMERCY FACILITY

In July 1999, KACC's Gramercy, Louisiana alumina refinery was extensively damaged by an explosion in the digestion area of the plant. See Note 2 of Notes to Interim Consolidated Financial Statements for a full discussion regarding the incident at the Gramercy facility.

Construction on the damaged part of the facility began during the first quarter of 2000. Initial production at the plant is currently expected to commence during the third quarter of 2000. Based on current estimates, full production is expected to be achieved during the first quarter of 2001. KACC has received the regulatory permit required to operate the plant once the facility is ready to resume production.

In March 2000, the U.S. Mine Safety and Health Administration ("MSHA") proposed that KACC be assessed a penalty of $.5 million in connection with the citations issued from its investigation of the incident. KACC disagrees with the substance of the previously issued MSHA citations and has challenged them and the associated penalty. However, it is possible that other civil or criminal fines or penalties could be levied against KACC.

From the date of the Gramercy incident through June 30, 2000, KACC had expended or incurred costs or losses associated with the Gramercy incident totaling $131.7 million, consisting of clean-up, site preparation and business interruption costs. From the date of the Gramercy incident through June 30, 2000, $88.1 million of insurance recoveries related to these costs had been received. In addition, during the second quarter of 2000, KACC spent approximately $48.0 million on Gramercy-related construction activities and received $24.0 million of insurance recoveries for capital expenditures related to the rebuilding of the Gramercy facility. Gramercy-related capital spending prior to the second quarter of 2000 was not significant.

WASHINGTON SMELTERS' OPERATING LEVEL

As previously announced, as a result of unprecedented high market prices for power in the Pacific Northwest, the Company has temporarily curtailed approximately 128,000 tons of its annual primary aluminum production at the Tacoma and Mead, Washington smelters and has sold 100 megawatts of power that it had under contract through June 30, 2001. As a result of the curtailment, the Company will avoid the need to purchase power on a variable cost basis. Additionally, the sale of power is expected to substantially mitigate the cash impact of the potline curtailment over the contract period for which the power was sold. To implement the curtailment, the Company has temporarily curtailed the two and one-half operating potlines at its Tacoma smelter and two and one-half out of a total of eight potlines at its Mead smelter. One-half of a potline at the Tacoma smelter was already curtailed.

As a result of the sale of the power, the Company recorded a net pre-tax gain of approximately $15.8 million, which amount was composed of gross proceeds of $31.3 million offset by incremental excess power costs in the second quarter, employee termination expenses and other fixed commitments. The net gain was recorded as a reduction of Cost of products sold.

LABOR MATTERS

Substantially all of KACC's hourly workforce at its Gramercy, Louisiana, alumina refinery, Mead and Tacoma, Washington, aluminum smelters, Trentwood, Washington, rolling mill, and Newark, Ohio, extrusion facility were covered by a master labor agreement with the United Steelworkers of America (the "USWA") which expired on September 30, 1998. The parties did not reach an agreement prior to the expiration of the master agreement and the USWA chose to strike. In January 1999, KACC declined an offer by the USWA to have the striking workers return to work at the five plants without a new agreement. KACC imposed a lock-out to support its bargaining position and continues to operate the plants with salaried employees and other workers as it has since the strike began.

As previously announced, in June 2000, KACC and USWA representatives agreed to a methodology to resolve the remaining differences between the parties. During July 2000, the USWA announced that its members had voted to accept this methodology. Under the agreement between KACC and the USWA, the parties continued to negotiate certain matters until mid-August. Since KACC and the USWA were unable to reach a complete agreement, the parties will proceed with binding arbitration. The arbitration will be completed by mid-September 2000 and it is expected that the USWA workers will return to the plants during September and October 2000.

As certain financial terms remain to be arbitrated, the Company cannot currently estimate the financial statement impact of the pending labor settlement. While KACC expects that many of its labor and financial objectives will be achieved in the pending settlement, it is anticipated that the labor settlement will result in certain one time charges and re-integration costs.

In connection with the USWA strike and subsequent lock-out by KACC, certain allegations of unfair labor practices ("ULPs") have been filed with the National Labor Relations Board ("NLRB") by the USWA. As previously disclosed, KACC responded to all such allegations and believes that they were without merit. In July 1999, the Oakland, California, regional office of the NLRB dismissed all material charges filed against KACC. In September 1999, the union filed an appeal of this ruling with the NLRB general counsel's office in Washington, D.C. In April 2000, KACC was notified by the general counsel of the NLRB of the dismissal of twenty-two of twenty-four allegations of ULPs previously brought against it by the USWA. In June 2000, the general counsel of the NLRB directed the Oakland Regional Office to issue a complaint on two allegations for trial before an administrative law judge. The Regional Office issued such a complaint in late June 2000. A trial date has been set for November 2000. Any outcome from the trial before the administrative law judge would be subject to an additional appeal either by the USWA or KACC. This process could take months or years. If these proceedings eventually resulted in a definitive ruling against KACC, it could be obligated to provide back pay to USWA members at the five plants and such amount could be significant. However, while uncertainties are inherent in the final outcome of such matters, the Company believes that the resolution of the alleged ULPs should not result in a material adverse effect on the Company's consolidated financial position, results of operations, or liquidity.

STRATEGIC INITIATIVES

KACC's strategy is to improve its financial results by: increasing the competitiveness of its existing plants; continuing its cost reduction initiatives; adding assets to businesses it expects to grow; pursuing divestitures of its non-core businesses; and strengthening its financial position.

In addition to working to improve the performance of the Company's existing assets, the Company has devoted significant efforts analyzing its existing asset portfolio with the intent of focusing its efforts and capital in sectors of the industry that are considered most attractive and in which the Company believes it is well positioned to capture value. This process has continued in 2000. In the first quarter of 2000, KACC, in the ordinary course of business, sold certain non-operating properties and its Micromill assets and technology. In June 2000, KACC purchased the assets of a drawn tube aluminum fabricating operation. This acquisition is part of the Company's continued focus on growing its Engineered products operations.

Another area of emphasis has been a continuing focus on managing the Company's legacy liabilities. The Company believes that KACC has insurance coverage available to recover certain incurred and future environmental costs and a substantial portion of its asbestos-related costs and is actively pursuing claims in this regard. The timing and amount of future recoveries of asbestos-related claims from insurance carriers remain a major priority of the Company, but will depend on the pace of claims review and processing by such carriers and the resolution of any disputes regarding coverage under the insurance policies.

Additional portfolio analysis and initiatives are continuing.

FLAT-ROLLED PRODUCTS

In December 1999, the Company announced that its Flat-rolled products business unit expects to accelerate its product mix shift toward higher value-added product lines such as heat-treat, beverage can lid and tab stock, automotive and other niche businesses, and away from beverage can body stock. This process should be completed during the fourth quarter of 2000, at which point the Company will assess related issues such as employment levels at the Trentwood facility. Although the shift in product mix is expected to have a favorable impact on the Company's results and financial position over the long term, it is possible that such a product mix shift may result in certain one-time charges.

SUBSEQUENT EVENT

During August 2000, KACC agreed to sell certain power that it had under contract for the third quarter of 2001. The power being sold is in excess of KACC's current and expected future operating requirements. The power sale, which is subject to final documentation, will yield net proceeds, and is expected to result in a net pre-tax gain, of approximately $40.0 million during the third quarter of 2000.

RESULTS OF OPERATIONS

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 downstream facilities. Intersegment transfers are valued at estimated market prices. The following table provides selected operational and financial information on a consolidated basis with respect to the Company for the quarters and six-month periods ended June 30, 2000 and 1999. The following data should be read in conjunction with the Company's interim consolidated financial statements and the notes thereto, contained elsewhere herein. See Note 12 of Notes to Consolidated Financial Statements for the year ended December 31, 1999, for further information regarding segments.

Interim results are not necessarily indicative of those for a full year.

SELECTED OPERATIONAL AND FINANCIAL INFORMATION
(Unaudited)
(In millions of dollars, except shipments and prices)

	Quarter Ended June 30,		Six Months Ended June 30,	
	2000	1999	2000	1999
Shipments: (000 tons)				
Alumina				
Third Party	538.9 (1)	611.4	976.4 (1)	1,098.4
Intersegment	156.7 (1)	189.3	434.3 (1)	339.6
Total Alumina	695.6	800.7	1,410.7	1,438.0
Primary Aluminum				
Third Party	86.1	69.0	165.5	131.9
Intersegment	37.5	46.3	85.4	85.8
Total Primary Aluminum	123.6	115.3	250.9	217.7
Flat-Rolled Products	39.0	59.0	90.8	111.5
Engineered Products	44.3	43.5	91.6	84.9
Average Realized Third Party Sales Price: (2)				
Alumina (per ton)	$ 204	$ 170	$ 204	$ 171
Primary Aluminum (per pound)	$ .69	$ .66	$ .71	$ .65
Net Sales:				
Bauxite and Alumina				
Third Party (includes net sales of bauxite)	$ 120.2 (1)	$ 110.8	$ 221.0 (1)	$ 200.5
Intersegment	29.5 (1)	29.6	86.3 (1)	52.6
Total Bauxite & Alumina	149.7	140.4	307.3	253.1
Primary Aluminum				
Third Party	130.6	100.5	257.7	189.6
Intersegment	57.5	63.1	139.6	112.2
Total Primary Aluminum	188.1	163.6	397.3	301.8

Flat-Rolled Products	121.4	155.3	275.1	303.6
Engineered Products	145.0	137.8	304.5	271.3
Minority Interests	25.3	20.6	49.9	39.4
Eliminations	(87.0)	(92.7)	(225.9)	(164.8)
Total Net Sales	$ 542.5	$ 525.0	$ 1,108.2	$ 1,004.4
Operating Income (Loss):				
Bauxite & Alumina	$ 13.5 (3)	$ (3.5)	$ 29.9 (3)	$ (11.3)
Primary Aluminum (4)	34.4	1.6	59.9	(20.5)
Flat-Rolled Products	7.2	7.5	10.3	14.9
Engineered Products	11.9 (5)	10.7	25.2 (5)	17.6
Micromill (6)	-	(3.0)	(.6)	(6.3)
Eliminations	1.2	1.9	(2.9)	5.5
Corporate	(16.7)(7)	(14.5)	(33.4)(7)	(32.2)
Total Operating Income (Loss)	$ 51.5	$ .7	$ 88.4	$ (32.3)
Net Income (Loss)	$ 11.0	$ (15.7)	$ 22.7	$ (53.9)
Capital Expenditures	$ 69.1	$ 13.8	$ 85.8	$ 30.3

(1) Net sales for the quarter and six-month periods ended June 30, 2000, included approximately 68,000 tons and 145,000 tons of alumina purchased from third parties and resold to certain unaffiliated customers and 15,000 tons and 54,000 tons, respectively, of alumina purchased from third parties and transferred to the Company's Primary aluminum business unit.

(2) Average realized prices for the Company's Flat-rolled products and Engineered products segments are not presented as such prices are subject to fluctuations due to changes in product mix. Average realized third party sales prices for alumina and primary aluminum include the impact of hedging activities.

(3) Operating income (loss) for the quarter and six-month periods ended June 30, 2000, included estimated business interruption insurance recoveries totaling $40.5 and $65.8, respectively. Additionally, depreciation was suspended for the Gramercy facility, as a result of the July 5, 1999, incident. Depreciation expense for the Gramercy facility for the six months ended June 30, 1999, was approximately $6.0.

(4) Operating income (loss) for the quarter and six-month periods ended June 30, 2000, included a non-recurring pre-tax gain of $15.8 relating to the sale of power. Operating income (loss) for the quarter and six-month periods ended June 30, 1999, included potline restart costs of $2.5 and $9.6, respectively.

(5) Operating income (loss) for the quarter and six-month periods ended June 30, 2000, included $.7 of non-recurring pre-tax costs related to product line exit.

(6) KACC's Micromill assets and technology were sold to a third party in February 2000.

(7) Operating income (loss) for the quarter and six-month periods ended June 30, 2000, included approximately $1.5 and $3.5, respectively, of non-recurring expenses related to Corporate staff cost reduction and efficiency initiatives.

OVERVIEW

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. Primary aluminum prices have historically been subject to significant cyclical price fluctuations. See Note 6 of Notes to Interim Consolidated Financial Statements for a discussion of KACC's hedging activities.

Changes in global, regional, or country-specific economic conditions can have a significant impact on overall demand for aluminum-intensive fabricated products in the transportation, distribution, and packaging markets. Such changes in demand can directly affect the Company's earnings by impacting the overall volume and mix of such products sold. To the extent that these end-use markets weaken, demand can also diminish for what the Company sometimes refers to as the "upstream" products: alumina and primary aluminum.

During 1999, the Average Midwest United States transaction price ("AMT price") per pound of primary aluminum declined from the low $.60 range at the beginning of the year to a low of approximately $.57 per pound in February and then began a steady increase ending 1999 at $.79 per pound. During the first quarter of 2000, the average AMT price was $.79 per pound. During the second quarter of 2000, the average AMT price was $.72 per pound, however, in mid-June the price began to increase ending the second quarter at approximately $.77 per pound. The average AMT price for primary aluminum for the week ended July 28, 2000, was approximately $.76 per pound.

QUARTER AND SIX MONTHS ENDED JUNE 30, 2000, COMPARED TO QUARTER AND SIX MONTHS ENDED JUNE 30, 1999

SUMMARY

The Company reported net income of $11.0 million, or $.14 of basic income per common share, for the second quarter of 2000, compared to a net loss of $15.7 million, or $.20 of basic loss per common share, for the same period of 1999. However, second quarter 2000 results included a non-recurring pre-tax gain of $15.8 million, or $.12 of basic income per share, relating to the sale of power discussed above offset by certain non-recurring pre-tax severance and relocation costs associated with Corporate restructuring initiatives and product line exit of $2.0 million, or $.02 of basic loss per common share. Results for the quarter ended June 30, 2000, also included pre-tax losses of $6.0 million, ($.05 of basic loss per common share) to reflect mark-to-market adjustments on certain primary aluminum hedging transactions.

For the six-month period ended June 30, 2000, the Company reported net income of $22.7 million, or $.29 of basic income per common share, compared to a net loss of $53.9 million, or $.68 of basic loss per common share, for the six-month period ended June 30, 1999. In addition to the second quarter 2000 non-recurring items described above, results for the six months ended June 30, 2000, included pre-tax gains of $8.4 million ($.6 of basic income per common share) to reflect mark-to-market adjustments on certain primary aluminum hedging transactions.

Results for the quarter and six-month periods ended June 30, 1999, included three essentially offsetting items. A favorable $50.5 million pre-tax gain on the sale of the Company's interests in AKW L.P., an aluminum wheel joint venture, was offset by a non-cash pre-tax charge of $38.0 million for asbestos-related claims and a pre-tax charge of $13.5 million to reflect a mark-to-market adjustment on certain primary aluminum hedging transactions.

Net sales in the second quarter of 2000 totaled $542.5 million compared to $525.0 million in the second quarter of 1999. Net sales for the six-month period ended June 30, 2000, totaled $1,108.2 million compared to $1,004.4 million for the six-month period ended June 30, 1999.

BAUXITE AND ALUMINA

Third party net sales of alumina increased 8% for the quarter ended June 30, 2000, as compared to the same period in 1999 as a 20% increase in third party average realized prices was partially offset by a 12% decrease in third party shipments. The increase in average realized prices was due to an increase in primary aluminum market prices related to the Company's primary aluminum-linked customers sales contracts, partially offset by allocated net losses from the Company's hedging activities. The decrease in quarter-over-quarter shipments resulted primarily from differences in the timing of shipments and, to a lesser extent, the net effect of the Gramercy incident, after considering the 68,000 tons of alumina purchased by KACC in 2000 from third parties to fulfill third party sales contracts.

Intersegment net sales of alumina were essentially flat for the quarter ended June 30, 2000, as compared to the same period in 1999. A 23% increase in the intersegment average realized price was offset by a 17% decrease in intersegment shipments. The increase in the intersegment average realized price is the result of increases in primary aluminum prices from period to period as intersegment transfers are made on the basis of market prices on a lagged basis of one month. The decrease in shipments was due to the timing of shipments as well as the unfavorable impact of the curtailments of the potlines at the Company's Washington smelters in mid-June 2000 as discussed above. Intersegment net sales for the second quarter 2000 included approximately 15,000 tons of alumina purchased from third-parties and transferred to the Primary aluminum business unit.

For the six-month period ended June 30, 2000, third party net sales of alumina were 10% higher than the comparable period in 1999 as a 19% increase in third party average realized prices was partially offset by an 11% decrease in third party shipments. The increase in average realized prices and decrease in third party shipments during the first six months of 2000 as compared to 1999 was attributable to the same price and volume factors discussed above. Third party net sales included approximately 145,000 tons of alumina purchased by KACC from third parties to fulfill third party sales contracts.

Intersegment net sales for the six-month period ended June 30, 2000, increased 64% as compared to the same period in 1999. The increase was due to a 28% increase in the intersegment average realized price and a 28% increase in intersegment shipments. The increase in the intersegment average realized price is the result of increases in primary aluminum prices from period to period as intersegment transfers are made on the basis of market prices on a lagged basis of one month. The increase in shipments was due to the favorable impact of operating more potlines at the Company's smelters during the first four months of 2000 as compared to the same months in 1999. Intersegment net sales for the year to date 2000 period included approximately 54,000 tons of alumina purchased from third-parties and transferred to the Primary aluminum business unit.

Segment operating income for the quarter and six-month periods ended June 30, 2000, increased from the comparable periods in 1999 primarily as the result of the increases in the average realized prices offset in part by the net decrease in shipments as discussed above.

See Note 2 of Notes to Interim Consolidated Financial Statements for a discussion of the effect of the Gramercy incident on the Bauxite and Alumina business unit's operations.

PRIMARY ALUMINUM

Third party net sales of primary aluminum were up 30% for the second quarter of 2000, as compared to the same period in 1999 as a result of a 25% increase in third party shipments and a 5% increase in third party averaged realized prices. The increase in shipments was primarily due to the favorable impact of the increased operating rate at the Company's 90%-owned Volta Aluminium Company Limited ("Valco") and Washington smelters offset, in part, by the mid-June 2000 curtailment of the potlines at the Washington smelters discussed above. The increase in the average realized prices reflects the 13% increase in primary aluminum market prices, partially offset by allocated net losses from the Company's hedging activities. Intersegment net sales were down approximately 9% between the second quarter of 2000 and the second quarter of 1999. This decrease was the result of a 19% decrease in intersegment shipments offset, in part, by a 13% increase in intersegment average realized prices. The increase in the intersegment average realized price was due to higher market prices for primary aluminum.

For the six-month period ended June 30, 2000, third party sales of primary aluminum increased approximately 36% from the comparable period in 1999, reflecting a 25% increase in third party shipments and a 9% increase in third party average realized prices. The increases in year-to-date 2000 shipments and prices compared to 1999 were attributable to the same factors described above. Intersegment net sales for the first half of 2000 were up 24% as compared to the same period in 1999. This increase primarily resulted from a 25% increase in average realized prices reflecting higher market prices for primary aluminum. Intersegment shipments were essentially flat.

Segment operating income for the quarter and six-month periods ended June 30, 2000, was up from the comparable periods 1999. The primary reason for the increases was the improvements in average realized prices and net shipments discussed above. However, both years' operating results included several non-recurring transactions. The quarter and six-month periods ended June 30, 2000, results included a net gain of $15.8 million associated with the sale of power described above; while the quarter and six-month periods ended June 30, 1999, results included costs of approximately $2.5 million and $9.6 million, respectively, associated with preparing and restarting potlines at Valco and the Washington smelters. In addition, segment operating income for the quarter and six-month periods ended June 30, 2000, have been adversely affected by increases in alumina and electric power costs. Even after excluding the excess power costs experienced by the Company in the second quarter in the Pacific Northwest, power costs have increased. As previously reported, new agreements entered into in both Ghana and Wales will provide for increased power stability but at increased costs.

FLAT-ROLLED PRODUCTS

Net sales of flat-rolled products decreased by 22% during the second quarter 2000 as compared to 1999 as a 34% decrease in shipments was offset by an 18% increase in average realized prices. The decrease in shipments was primarily due to reduced shipments of can body stock as a part of the Company's planned stock shipments was a modest quarter over quarter improvement in heat-treat products. The increase in average realized prices primarily reflects the change in product mix (resulting from the can stock body exit) as well as the pass through to customers of increased market prices for primary aluminum.

For the six-month period ended June 30, 2000, net sales of flat-rolled products decreased by 9% as compared to the same period in 1999 as a 19% decrease in shipments was offset by a 11% increase in average realized prices. The decline in year-to-date 2000 shipments is primarily attributable to the aforementioned decline in can body stock offset, in part, by increased shipments of general engineering heat-treat products. The increase in the average realized price reflects the pass-through to customers of increased market prices for primary aluminum offset, in part, by the substantial decline in the demand for aerospace heat-treat products subsequent to the first quarter of 1999.

The decrease in segment operating income in the quarter and the six-month periods ended June 30, 2000, were attributable to the same factors described above. Segment operating income also reflects the benefit of lower plant overhead and reduced major maintenance spending.

ENGINEERED PRODUCTS

Net sales of engineered products increased approximately 5% during the second quarter 2000 as compared to 1999, reflecting a 2% increase in product shipments and a 3% increase in average realized prices. Increased product shipments are the result of increased demand in the distribution market offset by reduced engineered component deliveries resulting from a product line exit. The increase in average realized prices reflects increased prices for soft alloy extrusions offset, in part, by a shift in product mix. For the six-month period ended June 30, 2000, net sales of engineered products increased approximately 12% as compared to the same period in 1999 as the result of an 8% increase in product shipments and a 4% increase in average realized prices. In addition to the factors described above for the quarter ended June 30, 2000, the price and value factors for the six-month period ended June 30, 2000, also reflect a short-term market related spike in certain hard alloy extrusion products. The changes in average realized prices for the quarter and six-month periods ended June 30, 2000, also reflect the pass through to customers of increased market prices for primary aluminum.

Segment operating income increased in the quarter and six-month period ended June 30, 2000, as compared to the comparable periods in 1999. These increases primarily reflect the impact of the demand in the distribution and redraw rod markets. Segment operating income for the quarter and six month periods ended June 30, 2000, included non-recurring severance charges of $.7 million related to a product line exit. Segment operating income for the six months ended June 30, 1999, included equity in earnings of $2.5 million from the Company's 50% interest in AKW L.P., which was sold in April 1999.

ELIMINATIONS

Eliminations of intersegment profit vary from period to period depending on fluctuations in market prices as well as the amount and timing of the affected segments' production and sales.

CORPORATE AND OTHER

Corporate operating expenses represent corporate general and administrative expenses which are not allocated to the Company's business segments. Corporate operating expenses for the quarter and six-month period ended June 30, 2000, included approximately $1.5 million and $3.5 million, respectively, of non-recurring expenses related to ongoing Corporate staff cost reduction and efficiency initiatives.

LIQUIDITY AND CAPITAL RESOURCES

See Note 5 of Notes to Consolidated Financial Statements for the year ended December 31, 1999, for a listing of the Company's indebtedness and information concerning certain restrictive debt covenants.

OPERATING ACTIVITIES

At June 30, 2000, the Company had working capital of $332.4 million, compared with working capital of $336.0 million at December 31, 1999. The decrease in working capital primarily resulted from an increase in trade and other receivables offset by decreases in inventories, prepaid expenses and other current assets and an increase in accounts payable. The increase in trade receivables reflects the increased market prices for primary aluminum. The increase in other receivables was primarily due to the sale of power (see Note 3 of Notes to Interim Consolidated Financial Statements) and an increase in the estimated business interruption insurance recoveries related to the Gramercy facility incident (see Note 2 of Notes to Interim Consolidated Financial Statements). The decrease in inventories reflects a planned focus on inventory reduction and efficiency initiatives and the previously announced exit from production of can body stock at the Flat-rolled products business unit. Changes in trade receivables and inventories also reflect the factors described in "Results of Operations." The decrease in prepaid expenses and other current assets resulted primarily from receipts by KACC of margin deposits resulting from reduced margin requirements due to lower end of period primary aluminum market prices. The increase in accounts payable was primarily due to the timing of payments for third party alumina purchases as well as increased capital spending related to the Gramercy incident.

INVESTING ACTIVITIES

Capital expenditures during the six-month period ended June 30, 2000, were $85.8 million, consisting primarily of $54.9 million for the rebuilding of the Gramercy facility and $13.3 million for the purchase of the non-working capital assets of a drawn tube aluminum fabricating operation (see Note 7 of Notes to Interim Consolidated Financial Statements). The remainder of the 2000 capital expenditures were used to improve production efficiency and reduce operating costs at the Company's other facilities. Total consolidated capital expenditures, excluding the expenditures for the rebuilding of the Gramercy facility (see Note 2 of Notes to Interim Consolidated Financial Statements), are expected to be between $80.0 and $115.0 million per annum in each of 2000 through 2002 (of which approximately 10% is expected to be funded by the Company's minority partners in certain foreign joint ventures). See "- Financing Activities and Liquidity" below for a discussion of Gramercy-related capital spending. Management continues to evaluate numerous projects all of which would require substantial capital, both in the United States and overseas. The level of capital expenditures may be adjusted from time to time depending on the Company's price outlook for primary aluminum and other products, KACC's ability to assure future cash flows through hedging or other means, the Company's financial position and other factors.

FINANCING ACTIVITIES AND LIQUIDITY

As of June 30, 2000, the Company's total consolidated indebtedness was $997.3 million, including $37.6 million of borrowings under KACC's credit agreement, as amended (the "Credit Agreement"), compared with $972.8 million at December 31, 1999. As of July 31, 2000, $25.3 million of borrowings were outstanding under the Credit Agreement.

At June 30, 2000, $207.8 million (of which $59.7 million could have been used for letters of credit) was available to KACC under the Credit Agreement. Loans under the Credit Agreement bear interest at a spread (which varies based on the results of a financial test) over either a base rate or LIBOR at the Company's option. During the six-month period ended June 30, 2000, the average per annum interest rate on loans outstanding under the Credit Agreement was approximately 9.78%.

The Company's and KACC's near-term liquidity will be, as more fully discussed below, affected by the Gramercy incident and the amount of net payments for asbestos liabilities.

From the date of the Gramercy incident through June 30, 2000, KACC had expended or incurred costs or losses associated with the Gramercy incident totaling $131.7 million, consisting of clean-up, site preparation and business interruption costs. From the date of the Gramercy incident through June 30, 2000, $88.1 million of insurance recoveries related to these costs had been received. In addition, during the second quarter of 2000, KACC spent approximately $48.0 million on Gramercy-related construction activities and received $24.0 million of insurance recoveries for capital expenditures related to the rebuilding of the Gramercy facility, which amount reduced the minimum property damage receivable recorded in the fourth quarter of 1999. Until all construction activity at the Gramercy facility is completed and full production is restored, KACC will continue to incur substantial business interruption costs and capital spending. Business interruption costs are expected to be substantially offset by insurance recoveries. A minimum of an additional $76.0 million of capital spending is expected to be funded by insurance recoveries. The remainder of the Gramercy-related capital expenditures will be funded by KACC using existing cash resources, funds from operations and/or borrowings under KACC's Credit Agreement. The amount of capital expenditures to be funded by KACC will depend on, among other things, the ultimate cost and timing of the rebuild and negotiations with the insurance carriers. KACC continues to work with the insurance carriers to maximize the amount of recoveries and to minimize, to the extent possible, the period of time between when KACC expends funds and when it is reimbursed. KACC will likely have to continue to fund an average of 30 - 60 days of property damage and business interruption activity, unless some other arrangement is agreed with the insurance carriers, and such amounts will be significant. The Company believes it has sufficient financial resources to fund the construction and business interruption costs on an interim basis. However, no assurances can be given in this regard.

KACC's estimated annual cash payments, prior to insurance recoveries, for asbestos-related costs will be approximately $75.0 million to $100.0 million for each of the years 2000 through 2002. The Company believes that KACC will recover a substantial portion of these payments from insurance. However, delays in receiving these or future insurance repayments would have an adverse impact on KACC's liquidity.

While no assurance can be given that existing cash sources will be sufficient to meet the Company's short-term liquidity requirements, management believes that the Company's existing cash resources, together with cash flows from operations and borrowings under the Credit Agreement, will be sufficient to satisfy its working capital and capital expenditure requirements for the next year.

KACC's ability to make payments on and to refinance its debt on a long-term basis depends on its ability to generate cash in the future. This, to a certain extent, is subject to general economic, financial, competitive, legislative, regulatory and other factors beyond KACC's control. KACC will need to refinance all or a substantial portion of its debt on or before its maturity. No assurance can be given that KACC will be able to refinance its debt on acceptable terms. However, with respect to long-term liquidity, management believes that operating cash flow, together with the ability to obtain both short and long-term financing, should provide sufficient funds to meet KACC's and the Company's working capital and capital expenditure requirements.

CAPITAL STRUCTURE

MAXXAM Inc. ("MAXXAM") and one of its wholly owned subsidiaries collectively own approximately 63% of the Company's Common Stock, with the remaining approximately 37% of the Company's Common Stock being publicly held. Certain of the shares of the Company's Common Stock beneficially owned by MAXXAM are subject to a pledge agreement by MAXXAM and its subsidiary.

The Company has an effective "shelf" registration statement covering the offering from time to time of up to $150.0 million of equity securities. Any such offering will only be made by means of a prospectus. The Company also has an effective "shelf" registration statement covering the offering of up to 10,000,000 shares of the Company's Common Stock that are owned by MAXXAM. The Company will not receive any of the net proceeds from any transaction initiated by MAXXAM pursuant to this registration statement.

The Credit Agreement does not permit the Company, and significantly restricts KACC's ability, to pay any dividends on their common stock.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The information included under Item 3. "QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK" in the Company's Form 10-Q for the quarterly period ended March 31, 2000, is incorporated by reference.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Gramercy Litigation

On July 5, 1999, KACC's Gramercy, Louisiana, alumina refinery was extensively damaged by an explosion in the digestion area of the plant. The cause of the accident is under investigation by KACC and various governmental agencies. In January 2000, the U.S. Mine Safety and Health Administration issued 21 citations and in March 2000 proposed KACC be assessed a penalty of $.5 million in connection with its investigation of the Gramercy incident. The citations allege, among other things, that certain aspects of the plant's operations were unsafe and that such mode of operation contributed to the explosion. KACC has previously announced that it disagrees with the substance of the citations and has challenged them and the associated penalty. It is possible that other civil or criminal fines or penalties could be levied against KACC.

A number of employees were injured in the incident, several of them severely. KACC may be liable for claims relating to the injured employees. The incident has resulted in more than sixty lawsuits, many of which were styled as class action suits, being filed against KACC and others on behalf of more than 16,000 claimants. Such lawsuits allege, among other things, property damage, business interruption loss and personal injury. Such lawsuits were filed, on dates ranging from July 5, 1999, through July 9, 2000, principally in the Fortieth Judicial District Court for the Parish of St. John the Baptist, State of Louisiana or in the Twenty-Third Judicial District Court for the Parish of St. James or the Parish of Ascension, State of Louisiana. Two of such lawsuits were filed in the United States District Court, Eastern District of Louisiana. Discovery has begun in such cases. The aggregate amount of damages sought in the lawsuits cannot be determined at this time.

See Part I, Item 3. "LEGAL PROCEEDINGS - Gramercy Litigation" in the Company's Form 10-K for the year ended December 31, 1999, and Part II, Item 1. "LEGAL PROCEEDINGS - Gramercy Litigation" in the Company's From 10-Q for the quarter ended March 31, 2000.

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 portion of Note 5 of Notes to Interim Consolidated Financial Statements contained in this report under the heading "Asbestos Contingencies" is incorporated herein by reference. See Part I, Item 3. "LEGAL PROCEEDINGS - Asbestos-related Litigation" in the Company's Form 10-K for the year ended December 31, 1999.

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

The annual meeting of stockholders of the Company was held on May 24, 2000, at which meeting the stockholders voted to elect management's slate of nominees as directors of the Company. The nominees for election as directors of the Company are listed below, together with the number of votes cast for, against, and withheld with respect to each such nominees, as well as the number of abstentions and broker nonvotes with respect to each such nominee:

Robert J. Cruikshank

Votes For:	76,406,961
Votes Against:	
Votes Withheld:	263,986
Abstentions:	
Broker Nonvotes:	

James T. Hackett

Votes For:	76,405,833
Votes Against:	
Votes Withheld:	265,114
Abstentions:	
Broker Nonvotes:	

George T. Haymaker, Jr.

Votes For:	76,409,092
Votes Against:	
Votes Withheld:	261,855
Abstentions:	
Broker Nonvotes:	

Charles E. Hurwitz

Votes For: 76,384,487
Votes Against:
Votes Withheld: 286,460
Abstentions:
Broker Nonvotes:

Ezra G. Levin
Votes For: 74,676,890
Votes Against:
Votes Withheld: 1,994,057
Abstentions:
Broker Nonvotes:

Raymond J. Milchovich
Votes For: 76,407,239
Votes Against:
Votes Withheld: 263,708
Abstentions:
Broker Nonvotes:

James D. Woods
Votes For: 76,412,312
Votes Against:
Votes Withheld: 258,635
Abstentions:
Broker Nonvotes:

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits.

Exhibit No.	Exhibit
*10.1	Time-Based Stock Option Grant pursuant to the Kaiser 1997 Omnibus Stock Incentive Plan to Joseph A. Bonn, effective September 9, 1999.
*10.2	Time-Based Stock Option Grant pursuant to the Kaiser 1997 Omnibus Stock Incentive Plan to J. Kent Friedman, effective December 1, 1999.
*10.3	Form of Non-Employee Director Stock Option Agreement pursuant to the Kaiser 1997 Omnibus Stock Incentive Plan.
*27	Financial Data Schedule.

(b) Reports on Form 8-K.

No Report on Form 8-K was filed by the Company during the quarter ended June 30, 2000.

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* Filed herewith

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized, who have signed this report on behalf of the registrant as the principal financial officer and principal accounting officer of the registrant, respectively.

KAISER ALUMINUM CORPORATION

/s/ John T. La Duc
By:---------------------------
John T. La Duc
Executive Vice President and
Chief Financial Officer
(Principal Financial Officer)

/s/ Daniel D. Maddox
By:---------------------------
Daniel D. Maddox
Vice President and Controller
(Principal Accounting Officer)

Dated: August 11, 2000

Exhibit 10.1

TIME-BASED STOCK OPTION GRANT
PURSUANT TO THE KAISER
1997 OMNIBUS STOCK INCENTIVE PLAN

1. GRANT OF STOCK OPTION. Kaiser Aluminum Corporation ("KAC") and Kaiser Aluminium & Chemical Corporation ("KACC"), both Delaware corporations (collectively, the "Company"), hereby evidence that the Company has granted to JOSEPH A. BONN ("Optionee") the right, privilege and option as herein set forth (the "Stock Option") to purchase 163,190 shares of common stock, $.01 par value per share, of KAC (as more fully defined in Attachment I -- "Definitions Applicable to Certain Terms", which is incorporated herein and made a part hereof, the "Option Shares") in accordance with the terms of this document (this "Stock Option Grant").

The Stock Option is granted pursuant to the Kaiser 1997 Omnibus Stock Incentive Plan (the "Plan") and is subject to the provisions of the Plan, a copy of which has been furnished to Optionee and which is hereby incorporated in and made a part of this Stock Option Grant, as well as to the provisions of this Stock Option Grant. By acceptance of the Stock Option, Optionee agrees to be bound by all of the terms, provisions, conditions and limitations of the Plan and this Stock Option Grant.

All capitalized terms used herein shall have the meanings provided in the Plan document unless otherwise specifically provided in this Stock Option Grant, including Attachment I. The Stock Option is a Nonqualified Stock Option under the Plan and is not intended to qualify as an "incentive stock option" within the meaning of Section 422 of the Code.

All Option Shares, when issued to Optionee upon the exercise of this Stock Option, shall be fully paid and nonassessable.

2. OPTION TERM. Subject to earlier termination as provided herein, or in the Plan, the Stock Option shall expire on September 09, 2009. The period during which the Stock Option is in effect shall be referred to as the "Option Period".

3. OPTION EXERCISE PRICE. The exercise price per Option Share (including any Attributable Securities, as defined in Attachment I) (the "Option Price") at which Optionee may purchase such Option Shares subject to the Stock Option shall be equal to the remainder of (i) $8.8438 per Option Share minus (ii) the amount per Option Share of Distributed Cash Value (as defined in Attachment I) determined as of the date of exercise. Such Option Price shall also be subject to adjustment as provided in the Plan and this Stock Option Grant. The Company shall notify Optionee within thirty (30) days of each change in the Option Price.

4. VESTING. The Stock Option may be exercised during the

Option Period only to the extent it has become a "Vested Option". Provided Optionee's Qualified Service Period (as defined in Attachment I) has not previously terminated, the Stock Option shall become a "Vested Option" as to one-third of the Option Shares as of 12:01 a.m. Houston time on December 31, 1999, as to an additional one-third of the Option Shares as of 12:01 a.m. Houston time on December 31, 2000 and as to the final one-third of the Option Shares as of 12:01 a.m. Houston time on December 31, 2001. Notwithstanding the preceding sentence, if KAC experiences a Change in Control (as defined in Attachment I) prior to January 1, 2002 and prior to the end of Optionee's Qualified Service Period, then the Stock Option shall become a Vested Option, exercisable as to all Option Shares from and including the date of the Change in Control until and including the first anniversary of the Change in Control, upon which anniversary the Option Period shall terminate and this Stock Option shall expire.

5. METHOD OF EXERCISE. To exercise the Stock Option, Optionee shall deliver written notice to the Company stating the number of Option Shares with respect to which the Stock Option is being exercised together with payment for such Option Shares. Payment shall be made (i) in cash or its equivalent, (ii) by tendering previously acquired Shares having an aggregate Fair Market Value (as defined in the Plan) at the time of exercise equal to the total Option Price (provided that the Shares which are tendered must have been held by Optionee for at least six months prior to their tender to satisfy the Option Price) or (iii) by a combination of (i) and (ii).

6. TERMINATION OF OPTIONEE'S EMPLOYMENT. Termination of Optionee's employment as a regular full-time salaried employee of KAC, a Subsidiary (as defined in Attachment I), or any branch, unit or division of KAC or any Subsidiary ("Employment") shall affect Optionee's rights under the Stock Option as follows:

(a) Termination by the Company for Cause. If Optionee's Employment is terminated by the Company at any time for Cause, then (i) the Option Period shall terminate and (ii) Optionee's right to exercise the Stock Option shall terminate, in each case immediately upon Optionee's becoming subject to termination of Employment for Cause. Optionee shall be terminated for "Cause" if terminated as a result of Optionee's breach of Optionee's written employment or other

engagement agreement (if any), or if the Board of Directors determines that Optionee is being terminated as a result of misconduct, dishonesty, disloyalty, disobedience or action that might reasonably be expected to injure KAC or any Subsidiary or their business interests or reputation.

(b) Termination by the Company Other than for Cause. If Optionee's Employment is terminated by the Company prior to January 1, 2002 other than as a result of termination of Optionee's Employment for Cause, then (i) the Stock Option and the Option Period shall not terminate and (ii) the Stock Option shall thereafter be exercisable as to all Option Shares from and including the date of such termination through and including the end of the Option Period.

(c) Other Termination. If Optionee's Qualified Service Period terminates prior to January 1, 2002 other than as a result of termination of Optionee's Employment by the Company, then (i) the Stock Option and the Option Period shall not terminate but the Stock Option shall thereafter be exercisable only to the extent it has become a Vested Option as of the date of termination of Optionee's Qualified Service Period and otherwise is exercisable in accordance with the provisions of this Stock Option Grant and the Plan.

The Stock Option may be exercised by Optionee or, in the case of death, by the executor or administrator of Optionee's estate, or the person or persons to whom Optionee's rights under the Stock Option shall pass by will or by the applicable laws of descent and distribution, or in the case of Disability, by Optionee's personal representative.

7. REORGANIZATIONS; REPURCHASE OF STOCK OPTION.

(a) Freedom to Reorganize the Company and Subsidiaries. The existence of the Stock Option shall not affect in any way the right or power of the Company and its Subsidiaries or the issuers of Attributable Securities or its or their stockholders to make or authorize any and all Distribution Events (as defined in Attachment I) and any and all other adjustments, recapitalizations, reorganizations or other changes in the capital structure or business of the Company or its Subsidiaries or the issuers of Attributable Securities, any and all issuances of bonds, debentures, common stock, preferred or prior preference stock, warrants, rights or other securities, whether or not affecting the Option Shares or the rights thereof, any dissolution or liquidation of the Company or any Subsidiary, any sale or other divestiture or transfer of all or any part of the assets or business of the Company or any Subsidiary or any issuer of Attributable Securities and any and all other corporate acts or proceedings, whether of a similar character or otherwise (collectively, including any Distribution Events, collectively, "Reorganizations").

(b) Spin-Offs. If the Board of Directors authorizes any Distribution Event or other Reorganization as a result of which holders of Shares (as defined in Attachment I) become entitled, in their capacities as holders, to receive Marketable Securities, the Board of Directors shall, to the extent reasonably practicable, cause the Company to provide for or require: (i) that the issuer(s) of such Marketable Securities shall undertake to issue and deliver to Optionee, upon any subsequent exercise of the Stock Option, such Marketable Securities as Optionee would have received if Optionee had so exercised the Stock Option prior to such Distribution Event or other Reorganization and had participated therein (and in any and all subsequent Distribution Events or other Reorganizations) to the maximum extent allowed to holders of Shares (including any Attributable Securities) outstanding at the time of such Distribution Event or other Reorganization; (ii) that such Marketable Securities shall be so issued and delivered to Optionee pursuant to an effective registration statement under the Securities Act of 1933, as amended, or otherwise free of any restriction on resale thereof by Optionee, other than any restriction on resale arising from Optionee's being an Affiliate or Insider (as such terms are defined in the Plan) of such issuer; (iii) that such Marketable Securities shall be so issued and delivered without any agreement, condition, payment or other consideration being required of Optionee or the Company; (iv) that such issuer(s) shall at all times reserve for issuance a sufficient amount of such

Marketable Securities to fulfill all obligations contemplated hereunder; and (v) that upon each such issuance, such Marketable Securities shall be duly authorized, validly issued, fully paid and nonassessable. The Company shall also provide for or require that: (x) in the event any such issuer shall fail or be unable to issue and deliver to Optionee any Marketable Securities as provided in the preceding sentence, such issuer shall be obligated, in lieu of issuing and delivering such Marketable Securities, to pay to Optionee in cash, immediately upon exercise of the Stock Option, the Market Value of such Marketable Securities determined as of the date of exercise of the Stock Option; and (y) in the event the Company is obligated to make a cash payment to Optionee pursuant to Paragraph 8(b), such issuer shall be obligated to reimburse the Company for a part of such payment proportionate to the Distributed Cash Value attributable to Attributable Securities of such issuer compared to the total amount of Distributed Cash Value.

(c) Right to Repurchase Stock Option. Upon receipt of a notice of exercise, the Company shall have the right but not the obligation to repurchase, and thereby to satisfy all of the Company's obligations under, the Stock Option as to the number of Option Shares as to which the Stock Option is exercised by paying Optionee in cash an amount, net of any

taxes required to be withheld, equal to the sum of (A) the product of (i) the number of Option Shares as to which the Stock Option is exercised multiplied by (ii) the amount, determined as of such date of exercise, equal to the remainder of (x) the Market Value of one Option Share minus (y) the Option Price plus (B) the amount of cash, if any, payable to Optionee pursuant to Paragraph 8(b).

8. ADJUSTMENTS.

(a) In the event of any one or more Distribution Events or other Reorganizations affecting the Stock Option and not already adjusted for under Paragraph 7, the Option Price and the number of Option Shares subject to the Stock Option shall be appropriately adjusted by the Board of Directors. In addition, the Board of Directors shall, as permitted by Section 3.2, Section 16.2 and other provisions of the Plan, construe and interpret the Plan and this Stock Option Grant and make all appropriate adjustments in order to prevent dilution or enlargement of the benefits or potential benefits intended to be made available to Optionee under this Stock Option Grant and the Plan.

(b) Without limitation to the foregoing, in the event that the amount of Distributed Cash Value as of any date of exercise of the Stock Option is equal to or greater than $8.8438 per Option Share, the Option Price shall be deemed to be $.01 per Option Share and the Company, in addition to issuing Option Shares to Optionee, shall pay to Optionee in respect of each Option Share as to which the Stock Option is exercised an amount of cash equal to the remainder of (i) such amount of Distributed Cash Value per Option Share minus (ii) $8.8438.

9. NO RIGHTS IN OPTION SHARES. Optionee shall have no rights as a stockholder in respect of Option Shares until such Optionee becomes the holder of record of such Option Shares.

10. OPTION SHARES RESERVED. The Company shall at all times

during the Option Period reserve and keep available such number of Shares as will be sufficient to satisfy the requirements of this Stock Option.

11. NONTRANSFERABILITV OF STOCK OPTION. The Stock Option granted pursuant to this Stock Option Grant is not transferable other than by will, the laws of descent and distribution or by qualified domestic relations order. The Stock Option will be exercisable during Optionee's lifetime only by Optionee or by Optionee's guardian or legal representative. No right or benefit hereunder shall in any manner be liable for or subject to any debts, contracts, liabilities, or torts of Optionee.

12. AMENDMENT AND TERMINATION. No amendment or termination of the Stock Option shall be made by the Board of Directors or the Committee (as defined in the Plan) at any time without the written consent of Optionee. No amendment of the Plan will adversely affect the rights, privileges and options of Optionee under the Stock Option without the written consent of Optionee.

13. NO GUARANTEE OF EMPLOYMENT. The Stock Option shall not confer upon Optionee any right with respect to continuance of Employment or other service with the Company or any Subsidiary or Affiliate, nor shall it interfere in any way with any right the Company or any Subsidiary or Affiliate would otherwise have to terminate such Optionee's Employment or other service at any time.

14. WITHHOLDING OF TAXES. The Company shall have the right to deduct or withhold, or require Optionee to remit to the Company, an amount sufficient to satisfy all federal, state and local taxes, domestic or foreign, required by law or regulation to be withheld with respect to any taxable event arising under this Stock Option Grant or any exercise or other action or event hereunder.

15. NO GUARANTEE OF TAX CONSEQUENCES. Neither the Company nor any Subsidiary or Affiliate, nor the Board of Directors or any Committee, makes any commitment or guarantee that any federal or state tax treatment will apply or be available to any person eligible for benefits under the Stock Option.

16. SEVERABILITY. In the event that any provision of the Stock Option shall be held illegal, invalid, or unenforceable for any reason, such provision shall be fully severable, but shall not affect the remaining provisions of the Stock Option, and the Stock Option shall be construed and enforced as if the illegal, invalid, or unenforceable provision had never been included herein.

17. GOVERNING LAW. The Stock Option shall be construed in

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accordance with the laws of the State of Texas to the extent

federal law does not supersede and preempt Texas law.

Executed effective as of the 9th day of September, 1999.

"COMPANY"

KAISER ALUMINUM CORPORATION

By: /s/ Raymond J. Milchovich
Printed Name: Raymond J. Milchovich
Title: President and COO

KAISER ALUMINUM & CHEMICAL CORPORATION

By: /s/ Raymond J. Milchovich
Printed Name: Raymond J. Milchovich
Title: President and COO

Accepted effective as of the 9th day of September, 1999.

"OPTIONEE"

/s/ Joseph A. Bonn
Printed Name: Joseph A. Bonn
Title: Vice President

ATTACHMENT I

TIME-BASED STOCK OPTION GRANT

DEFINITIONS APPLICABLE TO CERTAIN TERMS

"AFFILIATE" -- see Section 2.1 of the Plan.

"ATTRIBUTABLE SECURITIES" -- see the definition of "Option Share".

"CAUSE" -- see Paragraph 6(a) of this Stock Option Grant.

"CHANGE IN CONTROL" means a change in control of KAC that would be required to be reported in response to item 6(e) of Schedule 14A of Regulation 14A under the Securities Exchange Act of 1934, as amended, assuming such Schedule, Regulation and Act were applicable to KAC as in effect on April 15, 1998.

"DISABILITY" -- See Section 2.12 of the Plan.

"DISTRIBUTED CASH VALUE" means, as of any determination date, the aggregate amount of cash (other than regular quarterly cash dividends, if any) plus the aggregate value, as determined by the Board of Directors as of the date of distribution, of all property (other than cash and Attributable Securities) distributed or set aside for distribution to the holder of one Original Share and all Attributable Securities, if any, during the period commencing January 1, 1999 and ending on the determination date.

"DISTRIBUTION EVENTS" means any and all distributions, dividends, recapitalizations, forward or reverse splits, reorganizations, mergers, consolidations, spin-offs, combinations, repurchases, share exchanges, or other similar or substantially equivalent corporate transactions or events in which the holder of a security becomes, as such, entitled to receive cash, securities or other property in addition to or in exchange for or upon conversion of such security.

"EMPLOYMENT" -- see Paragraph 6 of this Stock Option Grant.

"INSIDER" -- see Section 2.19 of the Plan.

"KAC" -- see Paragraph 1 of this Stock Option Grant.

"KACC" -- see Paragraph 1 of this Stock Option Grant.

"MARKET VALUE" means, as of any Trading Day, the average of the highest and lowest sales prices as reported by the consolidated tape (or, if such prices are not quoted, the average of the quoted closing bid and asked prices) on such Trading Day for one Option Share (including, as applicable, the Market Values of any Attributable Securities). In the event that sales prices or closing bid and asked prices are not quoted on a particular

Trading Day, the Market Value for that Trading Day shall be deemed to be the Market Value for the immediately preceding Trading Day. In the event that any Attributable Security shall cease to be a Marketable Security, it shall thereupon be deemed to have no further Market Value and shall be deemed instead to have, as of the date it ceases to be a Marketable Security, such Distributed Cash Value as shall be determined by the Board of Directors.

"MARKETABLE SECURITIES" means securities (a) of a class that is registered under the Securities Exchange Act of 1934, as amended, (b) for which sales prices or bid and asked prices are regularly quoted and (c) that, if issued and delivered to Optionee upon exercise of the Stock Option, would not be subject to any restriction on resale, other than any restriction arising from Optionee's being an Affiliate or Insider (as such terms are defined in the Plan) of the issuer of such Marketable Securities.

"OPTION PERIOD" -- see Paragraph 2 of this Stock Option Grant.

"OPTION PRICE" -- see Paragraph 3 of this Stock Option Grant.

"OPTION SHARE" means (a) one Share as constituted on January 1, 1999 (an "Original Share") and (b) in the event of any one or more successive Distribution Events, all Marketable Securities ("Attributable Securities") into which or for which an Original Share or any Attributable Securities may be converted or exchanged or that a Stockholder may have the right to receive in respect of such Original Share or Attributable Securities.

"OPTIONEE" -- see Paragraph 1 of this Stock Option Grant.

"ORIGINAL SHARE" -- see the definition of "Option Share"

"PLAN" -- see Paragraph 1 of this Stock Option Grant.

"QUALIFIED SERVICE PERIOD" means the period from and including January 1, 1999 through and including the earlier of (a) December 31, 2001 or (b) the date immediately preceding the date of termination of Optionee's Employment; provided, however, that if Optionee's Employment has not terminated prior to the date that a proposed transaction is announced by KAC that would cause KAC to experience a Change in Control and such transaction is subsequently consummated so that KAC experiences a Change in Control, then Optionee's Qualified Service Period shall be deemed to continue through the date of consummation of such transaction and Change in Control unless Optionee's Employment is terminated by the Company for Cause or by Optionee.

"REORGANIZATION" -- see Section 7(a) of this Stock Option Grant.

"SHARE" means one share of common stock, par value $.01 per share, of KAC.

"STOCK OPTION" -- see Paragraph 1 of this Stock Option Grant.

"SUBSIDIARY" -- see Section 2.32 of the Plan. For avoidance of doubt, KACC shall be considered a Subsidiary of KAC so long as KAC has a majority voting interest in KACC, and KAC shall be considered to have a majority voting interest whether it holds such interest directly or indirectly through one or more Subsidiaries.

"TRADING DAY" means as to an Option Share (including any Attributable Securities) a day when the New York Stock Exchange (or other principal securities exchange, including Nasdaq, on which such securities are traded) is open.

TIME-BASED STOCK OPTION GRANT
PURSUANT TO THE KAISER
1997 OMNIBUS STOCK INCENTIVE PLAN

1. GRANT OF STOCK OPTION. Kaiser Aluminum Corporation ("KAC") and Kaiser Aluminium & Chemical Corporation ("KACC"), both Delaware corporations (collectively, the "Company"), hereby evidence that the Company has granted to J. KENT FRIEDMAN ("Optionee") the right, privilege and option as herein set forth (the "Stock Option") to purchase 167,000 shares of common stock, $.01 par value per share, of KAC (as more fully defined in Attachment I -- "Definitions Applicable to Certain Terms", which is incorporated herein and made a part hereof, the "Option Shares") in accordance with the terms of this document (this "Stock Option Grant").

The Stock Option is granted pursuant to the Kaiser 1997 Omnibus Stock Incentive Plan (the "Plan") and is subject to the provisions of the Plan, a copy of which has been furnished to Optionee and which is hereby incorporated in and made a part of this Stock Option Grant, as well as to the provisions of this Stock Option Grant. By acceptance of the Stock Option, Optionee agrees to be bound by all of the terms, provisions, conditions and limitations of the Plan and this Stock Option Grant.

All capitalized terms used herein shall have the meanings provided in the Plan document unless otherwise specifically provided in this Stock Option Grant, including Attachment I. The Stock Option is a Nonqualified Stock Option under the Plan and is not intended to qualify as an "incentive stock option" within the meaning of Section 422 of the Code.

All Option Shares, when issued to Optionee upon the exercise of this Stock Option, shall be fully paid and nonassessable.

2. OPTION TERM. Subject to earlier termination as provided herein, or in the Plan, the Stock Option shall expire on December 1, 2009. The period during which the Stock Option is in effect shall be referred to as the "Option Period".

3. OPTION EXERCISE PRICE. The exercise price per Option Share (including any Attributable Securities, as defined in Attachment I) (the "Option Price") at which Optionee may purchase such Option Shares subject to the Stock Option shall be equal to the remainder of (i) $9.00 per Option Share minus (ii) the amount per Option Share of Distributed Cash Value (as defined in Attachment I) determined as of the date of exercise. Such Option Price shall also be subject to adjustment as provided in the Plan and this Stock Option Grant. The Company shall notify Optionee within thirty (30) days of each change in the Option Price.

4. VESTING. The Stock Option may be exercised during the Option Period only to the extent it has become a "Vested Option". Provided Optionee's Qualified Service Period (as defined in Attachment I) has not previously terminated, the Stock Option shall become a "Vested Option" as to 20% of the Option Shares on the first anniversary of the date of this Agreement, and with respect to an additional 20% of the Option Shares on each of the second, third, fourth, and fifth anniversaries of the date of this Agreement, so that the Stock Option shall be fully exercisable with respect to all of the Option Shares on such fifth anniversary. Notwithstanding the preceding sentence, if KAC experiences a Change in Control (as defined in Attachment I) prior to December 1, 2004 and prior to the end of Optionee's Qualified Service Period, then the Stock Option shall become a fully Vested Option, exercisable as to all Option Shares from and including the date of the Change in Control until and including the first anniversary of the Change in Control, upon which anniversary the Option Period shall terminate and this Stock Option shall expire.

5. PARACHUTE PAYMENT GROSS-UP. To the extent that the acceleration of the vesting of Optionee's Stock Option as a result of a Change of Control of KAC subjects Optionee to federal income, excise, or other tax at a rate above the rate ordinarily applicable upon the exercise of the Stock Option ("Penalty Tax"), whether as a result of the provisions of sections 280G and 4999 of the Code, any similar or analogous provisions of any statute adopted subsequent to the date hereof, or otherwise, then KAC shall pay to Optionee an amount (the "Gross-up Amount") such that the net amount realized by Employee upon exercise of the Stock Option, after paying any applicable Penalty Tax and any federal or state income tax on such Gross-up Amount, shall be equal to the amount that Employee would have realized if such Penalty Tax were not applicable to the Stock Option.

6. METHOD OF EXERCISE. To exercise the Stock Option, Optionee shall deliver written notice to the Company stating the number of Option Shares with respect to which the Stock Option is being exercised together with payment for such Option Shares. Payment shall be made (i) in cash or its equivalent, (ii) by tendering previously acquired Shares having an aggregate Fair Market Value (as defined in the Plan) at the time of exercise equal to the total Option Price (provided that the Shares which are tendered must have been held by Optionee for at least six months prior to their tender to satisfy the Option Price) or (iii) by a combination of (i) and (ii).

7. TERMINATION OF OPTIONEE'S EMPLOYMENT. Termination of Optionee's employment as a regular full-time salaried employee of KAC, an Affiliate, a Subsidiary (as defined in Attachment I), or any branch, unit or division of KAC or any Subsidiary ("Employment") shall affect Optionee's rights under the Stock Option as follows:

(a) Termination by the Company for Cause. If Optionee's Employment is terminated by the Company at any time for Cause, then (i) the Option Period shall terminate and (ii) Optionee's right to exercise the Stock Option shall terminate, in each case immediately upon Optionee's becoming subject to termination of Employment for Cause. Optionee shall be terminated for "Cause" if terminated as a result of (A) Optionee's gross negligence or willful misconduct in the performance of the duties and services required of Optionee pursuant to the Employment Agreement, (B) Optionee's conviction of a felony, (C) Optionee's commission of an act of fraud against KAC, an Affiliate, or a Subsidiary, (D) Optionee's breach of any material provision of the Employment Agreement which remains uncorrected for 30 days following written notice to Optionee by his employer of such breach, (E) Optionee's failure to substantially perform his duties under the Employment Agreement, other than as a result of illness or injury, which failure remains uncorrected for 30 days following written notice to Optionee by his employer of such failure, or (F) Optionee's material failure to comply with his employer's code of business conduct, which failure remains uncorrected for 30 days following written notice to Optionee by his employer of such failure.

(b) Involuntary Termination Other than for Cause. If Optionee's Employment is terminated prior to December 1, 2009 other than as a result of termination of Optionee's Employment for Cause, and other than by reason of Voluntary Termination (as defined in Attachment I) then (i) the Stock Option and the Option Period shall not terminate and (ii) the Stock Option shall thereafter be exercisable as to all Option Shares from and including the date of such termination through and including the end of the Option Period.

(c) Voluntary Termination. If Optionee's Qualified Service Period terminates prior to December 1, 2009 by reason of a Voluntary Termination, then the Stock Option and the Option Period shall not terminate but the Stock Option shall thereafter be exercisable only to the extent it has become a Vested Option as of the date of termination of Optionee's Qualified Service Period and otherwise is exercisable in accordance with the provisions of this Stock Option Grant and the Plan.

The Stock Option may be exercised by Optionee or, in the case of death, by the executor or administrator of Optionee's estate, or the person or persons to whom Optionee's rights under the Stock Option shall pass by will or by the applicable laws of descent and distribution, or in the case of Disability, by Optionee's personal representative.

8. REORGANIZATIONS; REPURCHASE OF STOCK OPTION.

(a) Freedom to Reorganize the Company and Subsidiaries. The existence of the Stock Option shall not affect in any way the right or power of the Company and its Subsidiaries or the issuers of Attributable Securities or its or their stockholders to make or authorize any and all Distribution Events (as defined in Attachment I) and any and all other adjustments, recapitalizations, reorganizations or other changes in the capital structure or business of the Company or its Subsidiaries or the issuers of Attributable Securities, any and all issuances of bonds, debentures, common stock, preferred or prior preference stock, warrants, rights or other securities, whether or not affecting the Option Shares or the rights thereof, any dissolution or liquidation of the Company or any Subsidiary, any sale or other divestiture or transfer of all or any part of the assets or business of the Company or any Subsidiary or any issuer of Attributable Securities and any and all other corporate acts or proceedings, whether of a similar character or otherwise (collectively, including any Distribution Events, collectively, "Reorganizations").

(b) Spin-Offs. If the Board of Directors authorizes any Distribution Event or other Reorganization as a result of which holders of Shares (as defined in Attachment I) become entitled, in their capacities as holders, to receive Marketable Securities, the Board of Directors shall, to the extent reasonably practicable, cause the Company to provide for or require: (1) that the issuer(s) of such Marketable Securities shall undertake to issue and deliver to Optionee, upon any subsequent exercise of the Stock Option, such Marketable Securities as Optionee would have received if Optionee had so exercised the Stock Option prior to such Distribution Event or other Reorganization and had participated therein (and in any and all subsequent Distribution Events or other Reorganizations) to the maximum extent allowed to holders of Shares (including any Attributable Securities) outstanding at the time of such Distribution Event or other Reorganization; (ii) that such Marketable Securities shall be so issued and delivered to Optionee pursuant to an effective registration statement under the Securities Act of 1933, as amended, or otherwise free of any restriction on resale thereof by Optionee, other than any restriction on resale arising from Optionee's being an Affiliate or Insider (as such terms are defined in the Plan) of such issuer; (iii) that such Marketable Securities shall be so issued and delivered without any agreement, condition, payment or other consideration being required of Optionee or the Company; (iv) that such issuer(s) shall at all times reserve for issuance a sufficient amount of such Marketable Securities to fulfill all obligations contemplated hereunder; and (v) that upon each such issuance, such Marketable Securities shall be duly authorized, validly issued, fully paid and nonassessable. The Company shall also provide for or require that: (x) in the event any such issuer shall fail or be unable to issue and deliver to Optionee any Marketable Securities as provided in the preceding sentence, such issuer shall be obligated, in lieu of issuing and delivering such Marketable Securities, to pay to Optionee in cash, immediately upon exercise of the Stock Option, the Market Value of such Marketable Securities determined as of the date of exercise of the Stock Option; and (y) in the event the Company is obligated to make a cash payment to Optionee pursuant to Paragraph 8(b), such issuer shall be obligated to reimburse the Company for a part of such payment proportionate to the Distributed Cash Value attributable to Attributable Securities of such issuer compared to the total amount of Distributed Cash Value.

(c) Right to Repurchase Stock Option. Upon receipt of a notice of exercise, the Company shall have the right but not the obligation to repurchase, and thereby to satisfy all of the Company's obligations under, the Stock Option as to the number of Option Shares as to which the Stock Option is exercised by paying Optionee in cash an amount, net of any taxes required to be withheld, equal to the sum of (A) the product of (i) the number of Option Shares as to which the Stock Option is exercised multiplied by (ii) the amount, determined as of such date of exercise, equal to the remainder of (x) the Market Value of one Option Share minus (y) the Option Price plus (B) the amount of cash, if any, payable to Optionee pursuant to Paragraph 8(b).

9. ADJUSTMENTS.

(a) In the event of any one or more Distribution Events or other Reorganizations affecting the Stock Option and not already adjusted for under Paragraph 7, the Option Price and the number of Option Shares subject to the Stock Option shall be appropriately adjusted by the Board of Directors. In addition, the Board of Directors shall, as permitted by Section 3.2, Section 16.2 and other provisions of the Plan, construe and interpret the Plan and this Stock Option Grant and make all appropriate adjustments in order to prevent dilution or enlargement of the benefits or potential benefits intended to be made available to Optionee under this Stock Option Grant and the Plan.

(b) Without limitation to the foregoing, in the event that the amount of Distributed Cash Value as of any date of exercise of the Stock Option is equal to or greater than $9.00 per Option Share, the Option Price shall be deemed to be $.01 per Option Share and the

Company, in addition to issuing Option Shares to Optionee, shall pay to Optionee in respect of each Option Share as to which the Stock Option is exercised an amount of cash equal to the remainder of (i) such amount of Distributed Cash Value per Option Share minus (ii) $9.00.

10. NO RIGHTS IN OPTION SHARES. Optionee shall have no rights as a stockholder in respect of Option Shares until such Optionee becomes the holder of record of such Option Shares.

11. OPTION SHARES RESERVED. The Company shall at all times during the Option Period reserve and keep available such number of Shares as will be sufficient to satisfy the requirements of this Stock Option.

12. NONTRANSFERABILILY OF STOCK OPTION. The Stock Option granted pursuant to this Stock Option Grant is not transferable other than by will, the laws of descent and distribution or by qualified domestic relations order. The Stock Option will be exercisable during Optionee's lifetime only by Optionee or by Optionee's guardian or legal representative. No right or benefit hereunder shall in any manner be liable for or subject to any debts, contracts, liabilities, or torts of Optionee.

13. AMENDMENT AND TERMINATION. No amendment or termination of the Stock Option shall be made by the Board of Directors or the Committee (as defined in the Plan) at any time without the written consent of Optionee. No amendment of the Plan will adversely affect the rights, privileges and options of Optionee under the Stock Option without the written consent of Optionee.

14. NO GUARANTEE OF EMPLOYMENT. The Stock Option shall not confer upon Optionee any right with respect to continuance of Employment or other service with the Company or any Subsidiary or Affiliate, nor shall it interfere in any way with any right the Company or any Subsidiary or Affiliate would otherwise have to terminate such Optionee's Employment or other service at any time.

15. WITHHOLDING OF TAXES. The Company shall have the right to deduct or withhold, or require Optionee to remit to the Company, an amount sufficient to satisfy all federal, state and local taxes, domestic or foreign, required by law or regulation to be withheld with respect to any taxable event arising under this Stock Option Grant or any exercise or other action or event hereunder.

16. NO GUARANTEE OF TAX CONSEQUENCES. Neither the Company nor any Subsidiary or Affiliate, nor the Board of Directors or any Committee, makes any commitment or guarantee that any federal or state tax treatment will apply or be available to any person eligible for benefits under the Stock Option.

17. SEVERABILITY. In the event that any provision of the Stock Option shall be held illegal, invalid, or unenforceable for any reason, such provision shall be fully severable, but shall not affect the remaining provisions of the Stock Option, and the Stock Option shall be construed and enforced as if the illegal, invalid, or unenforceable provision had never been included herein.

18. GOVERNING LAW. The Stock Option shall be construed in accordance with the laws of the State of Texas to the extent federal law does not supersede and preempt Texas law.

Executed effective as of the 1st day of December, 1999.

"COMPANY"

KAISER ALUMINUM CORPORATION

By: /s/ Raymond J. Milchovich
Printed Name: Raymond J. Milchovich
Title: President and COO

KAISER ALUMINUM & CHEMICAL
CORPORATION

By: /s/ Raymond J. Milchovich
Printed Name: Raymond J. Milchovich
Title: President and COO
KAISER ALUMINUM & CHEMICAL
CORPORATION

Accepted effective as of the 1st day of December, 1999.

"OPTIONEE"

/s/ J. Kent Friedman
Printed Name: J. Kent Friedman
Title:

ATTACHMENT I

TIME-BASED STOCK OPTION GRANT

DEFINITIONS APPLICABLE TO CERTAIN TERMS

"AFFILIATE" -- see Section 2.1 of the Plan.

"ATTRIBUTABLE SECURITIES" -- see the definition of "Option Share".

"CAUSE" -- see Paragraph 6(a) of this Stock Option Grant.

"CHANGE IN CONTROL" means (a) the sale, lease, conveyance, or other disposition of all or substantially all of KAC's assets as an entirety or substantially as an entirety to any person, entity, or group of persons acting in concert other than in the ordinary course of business; (b) any transaction or series of related transactions (as a result of a tender offer, merger, consolidation or otherwise) that results in any person (as defined in Section 13(h)(8)(E) under the Securities Exchange Act of 1934) becoming the beneficial owner (as defined in Rule 13d-3 under the Securities Exchange Act of 1934), directly or indirectly, or more than 50% of the aggregate voting power of all classes of common equity of KAC, except if such Person is (i) a Subsidiary, (ii) an employee stock ownership plan for employees of KAC or (iii) a company formed to hold KAC's common equity securities and whose shareholders constituted, at the time such company became such holding company, substantially all the shareholders of KAC; or (c) a change in the composition of KAC's Board of Directors over a period of thirty-six (36) consecutive months or less such that a majority of the then current Board members ceases to be comprised of individuals who either (x) have been Board members continuously since the beginning of such period, or (y) have been elected or nominated for election as Board members during such period by at least a majority of the Board members described in clause (x) who were still in office at the time such election or nomination was approved by the Board.

"DISABILITY" -- See Section 2.12 of the Plan.

"DISTRIBUTED CASH VALUE" means, as of any determination date, the aggregate amount of cash (other than regular quarterly cash dividends, if any) plus the aggregate value, as determined by the Board of Directors as of the date of distribution, of all property (other than cash and Attributable Securities) distributed or set aside for distribution to the holder of one Original Share and all Attributable Securities, if any, during the period commencing December 1, 1999 and ending on the determination date.

"DISTRIBUTION EVENTS" means any and all distributions, dividends, recapitalizations, forward or reverse splits, reorganizations, mergers, consolidations, spin-offs, combinations, repurchases, share exchanges, or other similar or substantially equivalent corporate transactions or events in which the holder of a security becomes, as such, entitled to receive cash, securities or other property in addition to or in exchange for or upon conversion of such security.

"EMPLOYMENT" -- see Paragraph 6 of this Stock Option Grant.

"EMPLOYMENT AGREEMENT" means the Executive Employment Agreement, dated December 1, 1999 between MAXXAM, Inc. and Optionee.

"INSIDER" -- see Section 2.19 of the Plan.

"KAC" -- see Paragraph 1 of this Stock Option Grant.

"KACC" -- see Paragraph 1 of this Stock Option Grant.

"MARKET VALUE" means, as of any Trading Day, the average of the highest and lowest sales prices as reported by the consolidated tape (or, if such prices are not quoted, the average of the quoted closing bid and asked prices) on such Trading Day for one Option Share (including, as applicable, the Market Values of any Attributable Securities). In the event that sales prices or closing bid and asked prices are not quoted on a particular Trading Day, the Market Value for that Trading Day shall be deemed to be the Market Value for the immediately preceding Trading Day. In the event that any Attributable Security shall cease to be a Marketable Security, it shall thereupon be deemed to have no further Market Value and shall be deemed instead to have, as of the date it ceases to be a Marketable Security, such Distributed Cash Value as shall be determined by the Board of Directors.

"MARKETABLE SECURITIES" means securities (a) of a class that is registered under the Securities Exchange Act of 1934, as amended, (b) for which sales prices or bid and asked prices are regularly quoted and (c) that, if issued and delivered to Optionee upon exercise of the Stock Option, would not be subject to any restriction on resale, other than any restriction arising from Optionee's being an Affiliate or Insider (as such terms are defined in the Plan) of the issuer of such Marketable Securities.

"OPTION PERIOD" -- see Paragraph 2 of this Stock Option Grant.

"OPTION PRICE" -- see Paragraph 3 of this Stock Option Grant.

"OPTION SHARE" means (a) one Share as constituted on December 1, 1999 (an "Original Share") and (b) in the event of any one or more successive Distribution Events, all Marketable Securities ("Attributable Securities") into which or for which an Original Share or any Attributable Securities may be converted or exchanged or that a Stockholder may have the right to receive in respect of such Original Share or Attributable Securities.

"OPTIONEE" -- see Paragraph 1 of this Stock Option Grant.

"ORIGINAL SHARE" -- see the definition of "Option Share".

"PLAN" -- see Paragraph 1 of this Stock Option Grant.

"QUALIFIED SERVICE PERIOD" means the period from and including December 1, 1999 through and including the earlier of (a) November 30, 2004 or (b) the date immediately preceding the date of termination of Optionee's Employment by reason of Voluntary Termination.

"REORGANIZATION" -- see Section 7(a) of this Stock Option Grant.

"SHARE" means one share of common stock, par value $.01 per share, of KAC.

"STOCK OPTION" - see Paragraph 1 of this Stock Option Grant.

"SUBSIDIARY" - see Section 2.32 of the Plan. For avoidance of doubt, KACC shall be considered a Subsidiary of KAC so long as KAC has a majority voting interest in KACC, and KAC shall be considered to have a majority voting interest whether it holds such interest directly or indirectly through one or more Subsidiaries.

"TRADING DAY" means as to an Option Share (including any Attributable Securities) a day when the New York Stock Exchange (or other principal securities exchange, including Nasdaq, on which such securities are traded) is open.

"VOLUNTARY TERMINATION" means termination of Optionee's employment by Optionee, other than (a) a termination because of a material breach by Optionee's employer of any material provision of the Employment Agreement which remains uncorrected for 30 days following written notice of such breach by Optionee to his employer, (b) a termination within six months of a material reduction in Optionee's rank or responsibility with his employer which remains uncorrected for 30 days following written notice of such reduction by Optionee to his employer, or (c) a termination within 12 months of a "Change of Control" of his employer as such term is defined in the Employment Agreement.

Exhibit 10.3

NON-EMPLOYEE DIRECTOR
STOCK OPTION GRANT
PURSUANT TO THE KAISER
1997 OMNIBUS STOCK INCENTIVE PLAN

1) GRANT OF STOCK OPTION. Kaiser Aluminum Corporation ("KAC") and Kaiser Aluminum & Chemical Corporation ("KACC"), both Delaware corporations (collectively, the "Company"), hereby evidence that the Company has granted to __________("Optionee") the right, privilege and option as herein set forth (the "Stock Option") to purchase ______ shares of common stock, $.01 par value per share, of KAC (as more fully defined in Attachment I - "Definitions Applicable to Certain Terms", which is incorporated herein and made a part hereof, the "Option Shares") in accordance with the terms of this document (this "Stock Option Grant").

The Stock Option is granted pursuant to the Kaiser 1997 Omnibus Stock Incentive Plan (the "Plan") and is subject to the provisions of the Plan, a copy of which has been furnished to Optionee and which is hereby incorporated in and made a part of this Stock Option Grant, as well as to the provisions of this Stock Option Grant. By acceptance of the Stock Option, Optionee agrees to be bound by all of the terms, provisions, conditions and limitations of the Plan and this Stock Option Grant.

All capitalized terms used herein shall have the meanings provided in the Plan document unless otherwise specifically provided in this Stock Option Grant, including Attachment I. The Stock Option is a Nonqualified Stock Option under the Plan and is not intended to qualify as an "incentive stock option" within the meaning of Section 422 of the Code.

All Option Shares, when issued to Optionee upon the exercise of this Stock Option, shall be fully paid and nonassessable.

2) OPTION TERM. Subject to earlier termination as provided herein, or in the Plan, the Stock Option shall expire on __________ ("Expiration Date"). The period during which the Stock Option is in effect shall be referred to as the "Option Period".

3) OPTION EXERCISE PRICE. The exercise price per Option Share (the "Option Price") at which Optionee may purchase such Option Shares subject to the Stock Option shall be $_____per Option Share. Such Option Price shall be subject to adjustment as provided in the Plan and this Stock Option Grant. The Company shall notify Optionee within thirty (30) days of any change in the Option Price.

4) VESTING. The Stock Option may be exercised during the Option Period only to the extent it has become a "Vested Option."

The Stock Option shall become a Vested Option as to all of the Option Shares as of 12:01 a.m. Houston time on _________.

5) METHOD OF EXERCISE. To exercise the Stock Option, Optionee shall deliver written notice to the Company stating the number of Option Shares with respect to which the Stock Option is being exercised together with payment for such Option Shares. Payment shall be made (i) in cash or its equivalent, (ii) by tendering previously acquired Shares (as defined in Attachment I) having an aggregate Fair Market Value (as defined in the Plan) at the time of exercise equal to the total Option Price (provided that the Shares which are tendered must have been held by Optionee for at least six months prior to their tender to satisfy the Option Price) or (iii) by a combination of (i) and (ii).

The Stock Option may be exercised by Optionee or, in the case of death, by the executor or administrator of Optionee's estate, or the person or persons to whom Optionee's rights under the Stock Option shall pass by will or by the applicable laws of descent and distribution, or in the case of Disability (as defined in the Plan), by Optionee's personal representative.

6) TERMINATION OF DIRECTORSHIP. If Optionee's membership on the Board (as defined in the Plan) terminates for any reason, the Stock Option shall continue to vest and shall continue to be exercisable in accordance with the terms hereof.

7) REORGANIZATIONS. The existence of the Stock Option shall not affect in any way the right or power of the Company and its Subsidiaries (as defined in Attachment I) or the issuers of Attributable Securities or its or their stockholders to make or authorize any and all Distribution Events (as defined in Attachment I) and any and all other adjustments or other changes in the capital structure or business of the Company or its Subsidiaries or the issuers of Attributable Securities (as defined in Attachment I), any and all issuances of bonds, debentures, common stock, preferred or prior preference stock, warrants, rights or other securities, whether or not affecting the Option Shares or the rights thereof, any dissolution or liquidation of the Company or any Subsidiary, any sale or other divestiture or transfer of all or any part of the assets or business of the Company or any Subsidiary or any issuer of Attributable Securities and any and all other corporate acts or

proceedings, whether of a similar character or otherwise.

8) ADJUSTMENTS. If any one or more Distribution Events affects the Shares such that an adjustment in the Stock Option is appropriate in order to prevent dilution or enlargement of the rights of Optionee, the Board shall make appropriate adjustment to the number and kind of Shares or securities issuable in respect of the Stock Option and to the Option Price, or if deemed appropriate, make provision for the payment of cash or other property in respect of the Stock Option. In addition, the Board may make adjustments in the terms and conditions of the Stock Option in recognition of unusual or nonrecurring events affecting the Company or its financial statements or of changes in applicable laws, regulations or accounting principles in order to prevent dilution or enlargement of the benefits or potential benefits intended to be made available to Optionee under this

Stock Option Grant and the Plan.

9) NO RIGHTS IN OPTION SHARES. Optionee shall have no rights as a stockholder in respect of Option Shares until Optionee becomes the holder of record of such Option Shares.

10) OPTION SHARES RESERVED. The Company shall at all times during the Option Period reserve and keep available such number of Shares as will be sufficient to satisfy the requirements of the Stock Option.

11) NONTRANSFERABILITY OF STOCK OPTION. The Stock Option granted pursuant to this Stock Option Grant is not transferable other than by will, the laws of descent and distribution or by qualified domestic relations order. The Stock Option will be exercisable during Optionee's lifetime only by Optionee or by Optionee's guardian or legal representative. No right or benefit hereunder shall in any manner be liable for or subject to any debts, contracts, liabilities, or torts of Optionee.

12) AMENDMENT AND TERMINATION. Except as permitted herein or by the Plan, no amendment or termination of the Stock Option shall be made by the Board at any time without the written consent of Optionee. No amendment of the Plan will adversely affect the rights, privileges and options of Optionee under the Stock Option without the written consent of Optionee.

13) NO GUARANTEE OF DIRECTORSHIP. The Stock Option shall not confer upon Optionee any right with respect to continuance as a member of the Board, nor shall it interfere in any way with any right the Company would otherwise have to terminate Optionee's membership on the Board or other service at any time.

14) WITHHOLDING OF TAXES. The Company shall have the right to deduct or withhold, or require Optionee to remit to the Company, an amount sufficient to satisfy all federal, state and local taxes, domestic or foreign, required by law or regulation to be withheld with respect to any taxable event arising under this Stock Option Grant or any exercise or other action or event hereunder.

15) NO GUARANTEE OF TAX CONSEQUENCES. Neither the Company nor the Board makes any commitment or guarantee that any federal or state tax treatment will apply or be available to any person eligible for benefits under the Stock Option.

16) SEVERABILITY. In the event that any provision of the Stock Option shall be held illegal, invalid, or unenforceable for any reason, such provision shall be fully severable, but shall not affect the remaining provisions of the Stock Option, and the Stock Option shall be construed and enforced as if the illegal, invalid, or unenforceable provision had never been included herein.

17) GOVERNING LAW. The Stock Option shall be construed in accordance with the laws of the State of Texas to the extent federal law does not supersede and preempt Texas law.

Executed effective as of the [x day of mo, yr].

"COMPANY"

KAISER ALUMINUM CORPORATION

By:

Printed Name:

Title:

KAISER ALUMINUM & CHEMICAL CORPORATION

By:

Printed Name:

Title:

Accepted effective as of the [x day of mo, yr].

"OPTIONEE"

Printed Name:

Title:

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1 Stock Options granted in May 2000 vest upon the earlier of (a) the time when a Share trades at $10.00 or more for 20 consecutive trading days and at least one year has elapsed since the date of grant, and (b) nine years after the date of grant.

2 Stock Options granted in May 2000 will vest immediately upon the death of Optionee and will be exercisable as to all

Option Shares from the date of death through the end of the Option Period. If Optionee ceases to be a member of the Board for any other reason, the Stock Option will continue to vest in accordance with Paragraph 4 and all Vested Options will be exercisable through the end of the Option Period.

ATTACHMENT I

NON-EMPLOYEE DIRECTOR STOCK OPTION GRANT

DEFINITIONS APPLICABLE TO CERTAIN TERMS

"ATTRIBUTABLE SECURITIES" - see the definition of "Option Share".

"DISTRIBUTION EVENTS" means any and all distributions, dividends, recapitalizations, forward or reverse splits, reorganizations, mergers, consolidations, spin-offs, combinations, repurchases, share exchanges or other similar corporate transactions or events.

"MARKETABLE SECURITIES" means securities (a) of a class that is registered under the Securities Exchange Act of 1934, as amended, (b) for which sales prices or bid and asked prices are regularly quoted and (c) that, if issued and delivered to Optionee upon exercise of the Stock Option, would not be subject to any restriction on resale, other than any restriction arising from Optionee's being an Affiliate or Insider (as defined in the Plan) of the issuer of such Marketable Securities.

"OPTION SHARE" means (a) one Share as constituted on _____________ (an "Original Share") and (b) in the event of any one or more successive Distribution Events, all Marketable Securities ("Attributable Securities") into which or for which an Original Share or any Attributable Securities may be converted or exchanged or that a stockholder may have the right to receive in respect of such Original Share or Attributable Securities.

"ORIGINAL SHARE" - see the definition of "Option Share".

"SHARE" means one share of common stock, par value $.01 per share, of KAC.

"SUBSIDIARY" - see Section 2.32 of the Plan. For avoidance of doubt, KACC shall be considered a Subsidiary of KAC so long as KAC has a majority voting interest in KACC, and KAC shall be considered to have a majority voting interest whether it holds such interest directly or indirectly through one or more Subsidiaries.

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This schedule contains summary financial information extracted from the consolidated financial statements of the Company for the six months ended June 30, 2000, and is qualified in its entirety by reference to such financial statements.
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