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, 1999

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 August 6, 1999, the registrant had 79,404,553 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, 1999	December 31, 1998
ASSETS	(Unaudited)	
Current assets:		
Cash and cash equivalents	$ 26.2	$ 98.3
Receivables	271.7	282.7
Inventories	524.7	543.5

Prepaid expenses and other current assets	132.8	105.5
Total current assets	955.4	1,030.0
Investments in and advances to unconsolidated affiliates	101.2	128.3
Property, plant, and equipment - net	1,088.0	1,108.7
Deferred income taxes	405.9	377.9
Other assets	495.7	346.0
Total	$ 3,046.2	$ 2,990.9
LIABILITIES & STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 148.1	$ 173.3
Accrued interest	37.3	37.3
Accrued salaries, wages, and related expenses	62.4	73.8
Accrued postretirement medical benefit obligation - current portion	48.2	48.2
Other accrued liabilities	167.3	148.3
Payable to affiliates	79.7	77.1
Long-term debt - current portion	.4	.4
Total current liabilities	543.4	558.4
Long-term liabilities	670.0	532.9
Accrued postretirement medical benefit obligation	687.5	694.3
Long-term debt	962.3	962.6
Minority interests	116.4	123.5
Commitments and contingencies		
Stockholders' equity:		
Common stock	.8	.8
Additional capital	536.7	535.4
Accumulated deficit	(470.9)	(417.0)
Total stockholders' equity	66.6	119.2
Total	$ 3,046.2	$ 2,990.9

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,	
	1999	1998	1999	1998
Net sales	$ 525.0	$ 614.8	$ 1,004.4	$ 1,211.8
Costs and expenses:				
Cost of products sold	473.9	503.5	933.8	1,000.6
Depreciation and amortization	24.1	24.9	48.5	50.3
Selling, administrative, research and development, and general	26.3	31.1	54.4	60.8
Total costs and expenses	524.3	559.5	1,036.7	1,111.7
Operating income (loss)	.7	55.3	(32.3)	100.1
Other income (expense):				
Interest expense	(27.4)	(26.9)	(55.1)	(54.9)
Other - net	1.2	(2.7)	2.5	(1.9)
Income (loss) before income taxes and minority interests	(25.5)	25.7	(84.9)	43.3
Benefit (provision) for income taxes	8.6	(9.0)	28.8	(15.2)
Minority interests	1.2	-	2.2	.6

Net income (loss)	$ (15.7)	$ 16.7	$ (53.9)	$ 28.7
Earnings (loss) per share:				
Basic	$ (.20)	$ .21	$ (.68)	$ .36
Diluted	$ (.20)	$ .21	$ (.68)	$ .36
Weighted average shares outstanding (000):				
Basic	79,377	79,145	79,266	79,077
Diluted	79,377	79,234	79,266	79,160

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,	
	1999	1998
Cash flows from operating activities:		
Net income (loss)	$ (53.9)	$ 28.7
Adjustments to reconcile net income (loss) to net cash (used) provided by operating activities:		
Depreciation and amortization (including deferred financing costs of $2.1 and $2.0)	50.6	52.3
Gain on sale of interest in AKW joint venture	(50.5)	-
Equity in (income) loss of unconsolidated affiliates, net of distributions	(4.2)	1.5
Minority interests	(2.2)	(.6)
Decrease in receivables	11.0	45.5
Decrease in inventories	18.8	61.5
(Increase) decrease in prepaid expenses and other current assets	(37.4)	11.0
Decrease in accounts payable and accrued interest	(25.2)	(19.8)
Increase (decrease) in payable to affiliates and other accrued liabilities	4.3	(31.5)
(Decrease) increase in accrued and deferred income taxes	(36.5)	5.3
Increase (decrease) in net long-term assets and liabilities	11.1	(9.6)
Other	1.3	7.4
Net cash (used) provided by operating activities	(112.8)	151.7
Cash flows from investing activities:		
Proceeds from sale of interest in AKW joint venture	70.4	-
Capital expenditures	(30.3)	(36.7)
Other	.2	(3.1)
Net cash provided (used) by investing activities	40.3	(39.8)
Cash flows from financing activities:		
Borrowings under revolving credit facility, net	-	-
Repayments of long-term debt	(.3)	(7.0)
Capital stock issued	1.3	-
Decrease in restricted cash, net	.8	1.2
Redemption of minority interests' preference stock	(1.4)	(8.5)
Net cash provided (used) by financing activities	.4	(14.3)
Net (decrease) increase in cash and cash equivalents during the period	(72.1)	97.6
Cash and cash equivalents at beginning of period	98.3	15.8
Cash and cash equivalents at end of period	$ 26.2	$ 113.4
Supplemental disclosure of cash flow information:		
Interest paid, net of capitalized interest	$ 53.0	$ 53.2
Income taxes paid	8.8	8.9

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 with the instructions to Form 10-Q and Article 10 of Regulation S-X as promulgated by 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, 1998. 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, 1999, are not necessarily indicative of the results that may be expected for the year ending December 31, 1999.

Certain reclassifications of prior-year information were made to conform to the current presentation.

INCIDENT AT GRAMERCY FACILITY

On July 5, 1999, KACC's Gramercy, Louisiana alumina refinery was extensively damaged by an explosion in the digestion area of the plant. Approximately 24 employees were injured in the incident, several of them severely. The cause of the incident is under investigation by KACC and governmental agencies.

As previously announced, KACC expects that production at the plant will be curtailed for many months. KACC has declared force majeure with respect to certain of its sales and purchase contracts, but continues to work with customers to assist them in securing alternative sources of alumina.

More than 30 lawsuits have been filed against KACC alleging, among other things, property damage and personal injury as a result of the incident. 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.

KACC has significant amounts of property damage, business interruption, liability and workers compensation insurance coverage relating to the Gramercy incident. Deductibles and self-retention provisions under the insurance coverage for the Gramercy incident total $5.0.

The incident will cause KACC to incur incremental costs for clean-up and other activities in the second half of 1999 and will cause the affected operations to incur certain operating losses until production can be restored. Further, depending

on the outcome of the ongoing investigations by various regulatory agencies, KACC could also be subject to certain fines or penalties, which may not be covered by insurance. However, based on what is known to date, the Company currently believes that the financial impact of this incident (in excess of the deductibles and self-retention provisions) will be largely offset by insurance coverage.

The accompanying consolidated financial statements as of and for the periods ended June 30, 1999, do not include any provisions for the Gramercy incident.

LABOR RELATED COSTS

The Company is currently 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 the Company in January 1999. However, the Company has continued to accrue certain benefits 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 has based its accruals on the terms of the previously existing (expired) USWA contract. Any differences between any amounts accrued and any amounts ultimately agreed to during the collective bargaining process will be reflected in future results during the term of any new contract.

RECENT ACCOUNTING PRONOUNCEMENTS

In June 1998, the Financial Accounting Standard 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 was initially required on or before January 1, 2000. However, in June 1999, the FASB issued SFAS No. 137 which delayed the required implementation date of SFAS No. 133 to no later than January 1, 2001. The Company is currently evaluating how and when to implement SFAS No. 133.

2. 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 loss per share for the quarter and six-month periods ended June 30, 1999, as its effect would have been antidilutive. Diluted earnings per share for the quarter and six-month periods ended June 30, 1998, include the dilutive effect of outstanding stock options of 89,000 and 83,000 shares, respectively.

3. INVENTORIES

The classification of inventories is as follows:

	June 30, 1999	December 31, 1998

Finished fabricated aluminum products	$ 118.2	$ 112.4
Primary aluminum and work in process	171.6	205.6
Bauxite and alumina	118.9	109.5
Operating supplies and repair and maintenance parts	116.0	116.0
Total	$ 524.7	$ 543.5

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.

4. 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, 1999, the balance of such accruals, which are primarily included in Long-term liabilities, was $50.1. 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 $8.0 for the years 1999 through 2003 and an aggregate of approximately $30.0 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. 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 it 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, 1999, the number of such claims pending was approximately 94,700, as compared with 86,400 at December 31, 1998. In 1998, approximately 22,900 of such claims were received and 13,900 were settled or dismissed. During the quarter and six-month periods ended June 30, 1999, approximately 7,000 and 16,300 of such claims were received and 3,600 and 8,000 of such claims were settled or dismissed. However, the foregoing claim and settlement figures as of and for the quarter and six-month periods ended June 30, 1999, do not reflect the fact that as of June 30, 1999, KACC has reached agreements under which it will settle

approximately 27,000 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 expected 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, 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, there is a reasonable possibility that such costs may continue beyond 2009, and that such costs could be substantial. As of June 30, 1999, an estimated asbestos-related cost accrual of $337.5, before consideration of insurance recoveries, has been reflected in the accompanying financial statements primarily in Long-term liabilities. The Company estimates that annual future cash payments for asbestos-related costs will be approximately $37.0 to $54.0 for each of the years 1999 through 2003, and an aggregate of approximately $123.0 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 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 with respect to applicable insurance coverage law relating to the terms and conditions of those policies. Accordingly, an estimated aggregate insurance recovery of $272.5, determined on the same basis as the asbestos-related cost accrual, is recorded primarily in Other assets at June 30, 1999.

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. In the second quarter of 1999, this process resulted in the Company reflecting a $38.0 charge (included in Other income(expense)) for asbestos-related claims, net of expected insurance recoveries, based on recent cost and other trends experienced by KACC and other companies. 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") were filed with the National Labor Relations Board ("NLRB") by the USWA. As previously disclosed, KACC responded to all such allegations and believed that they were without merit. In July 1999, all material charges were dismissed by the NLRB's Regional Director. The USWA has announced its intention to appeal the dismissal. If the allegations are sustained on appeal, KACC could be required to make locked-out employees whole for back wages from the date of the lock-out in January 1999. 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 9 of Notes to Consolidated Financial Statements for the year ended December 31, 1998, for additional information on commitments and contingencies.

5. DERIVATIVE FINANCIAL INSTRUMENTS AND RELATED HEDGING PROGRAMS

At June 30, 1999, 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 $15.5 (based on comparisons to 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, 1999, KACC had sold forward, at fixed prices, approximately 12,000 tons* of primary aluminum with respect to 1999. As of June 30, 1999, KACC had also entered into option contracts that established a price range

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

for an additional 130,000, 353,000 and 124,000 tons of primary aluminum for 1999, 2000 and 2001, respectively.

Additionally, through June 30, 1999, KACC had entered 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 4,000 tons of primary aluminum per month during the period July 1999 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 8,000 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 are "marked to market" each period. For the quarter and six-month periods ended June 30, 1999, the Company recorded mark-to-market charges of $13.5 and $14.1 in Other income (expense) associated with the above transactions.

As of June 30, 1999, KACC had sold forward virtually all of the alumina available to it in excess of its projected internal smelting requirements for 1999, 2000 and 2001 at prices indexed to future prices of primary aluminum.

ENERGY

KACC is exposed to energy price risk from fluctuating prices for fuel oil, diesel fuel and natural gas consumed in the production process. Accordingly, 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, 1999, KACC had a combination of fixed price purchase and option contracts for the purchase of approximately 27,000 MMBtu of natural gas per day during the remainder of 1999. As of June 30, 1999, KACC also held a combination of fixed price purchase and option contracts for an average of 249,000 and 232,000 barrels per month of fuel oil and diesel fuel for 1999 and 2000, respectively.

FOREIGN CURRENCY

KACC enters into forward exchange contracts to hedge material cash commitments to foreign subsidiaries or affiliates. At June 30, 1999, KACC had net forward foreign exchange contracts totaling approximately $138.9 for the purchase of 208.7 Australian dollars from July 1999 through May 2001, in respect of its Australian dollar-denominated commitments for the remainder of 1999 through May 2001.

See Note 1 of the Notes to Consolidated Financial Statements for the year ended December 31, 1998, for additional information concerning the use of derivative financial instruments.

6. SIGNIFICANT ACQUISITIONS AND DISPOSITIONS

In February 1999, KACC, through a subsidiary, completed the acquisition of its joint venture partner's 45% interest in Kaiser LaRoche Hydrate Partners ("KLHP") for a cash purchase price of approximately $10.0. As KACC already owned 55% of KLHP, the results of KLHP were already included in the Company's consolidated financial statements.

On April 1, 1999, KACC completed the previously announced sale of its 50% interest in AKW L.P. ("AKW"), an aluminum wheels joint venture, to its partner, Accuride Corporation for $70.4. The sale resulted in the Company recognizing a net pre-tax gain of $50.5 in the second quarter of 1999. The Company's equity in income of AKW for the quarter ended March 31, 1999, was $2.5. The Company's equity in income of AKW for the quarter and six-month periods ended June 30, 1998, was $2.3 and $3.4, respectively.

7. 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, 1998. 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 11 of Notes to Consolidated Financial Statements for the year ended December 31, 1998, for additional information regarding the Company's segments.

Financial information by operating segment for the quarters and six months ended June 30, 1999 and 1998 is as follows:

	Quarter Ended June 30,		Six Months Ended June 30,	
	1999	1998	1999	1998
Net Sales:				
Bauxite and Alumina:				
Net sales to unaffiliated customers	$ 110.8	$ 136.9	$ 200.5	$ 230.2
Intersegment sales	29.6	36.1	52.6	78.3
	140.4	173.0	253.1	308.5
Primary Aluminum:				
Net sales to unaffiliated customers	100.5	105.8	189.6	232.0
Intersegment sales	63.1	61.0	112.2	127.8
	163.6	166.8	301.8	359.8
Flat-Rolled Products	155.3	197.0	303.6	391.3
Engineered Products	137.8	156.0	271.3	318.6
Minority interests	20.6	19.2	39.4	39.8
Eliminations	(92.7)	(97.2)	(164.8)	(206.2)

	$ 525.0	$ 614.8	$ 1,004.4	$ 1,211.8
Operating income (loss):				
Bauxite and Alumina	$ (3.5)	$ 17.8	$ (11.3)	$ 29.4
Primary Aluminum (1)	1.6	22.1	(20.5)	42.2
Flat-Rolled Products	7.5	23.2	14.9	39.5
Engineered Products	10.7	15.2	17.6	31.5
Micromill	(3.0)	(4.7)	(6.3)	(9.9)
Eliminations	1.9	(.7)	5.5	2.4
Corporate and Other	(14.5)	(17.6)	(32.2)	(35.0)
	$ .7	$ 55.3	$ (32.3)	$ 100.1
Depreciation and amortization:				
Bauxite and Alumina	$ 8.9	$ 9.0	$ 17.8	$ 18.6
Primary Aluminum	7.0	7.5	14.3	15.0
Flat-Rolled Products	4.1	4.0	8.2	8.1
Engineered Products	2.6	2.7	5.3	5.4
Micromill	.7	.8	1.4	1.5
Corporate and Other	.8	.9	1.5	1.7
	$ 24.1	$ 24.9	$ 48.5	$ 50.3

(1) Includes potline preparation and restart costs of $2.5 and $9.6 for the quarter and six-month periods ended June 30, 1999, respectively.

Excluding the February 1999 purchase of the remaining interest in KLHP, which affected the Bauxite and Alumina segment, and the April 1999 sale of KACC's interest in AKW, which affected the Engineered Products segment, there were no material changes in segment assets since December 31, 1998. Capital expenditures made during the first half of 1999 (other than the acquisition of the interest in KLHP) were incurred on a relatively ratable basis among KACC's four primary operating business segments.

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, year 2000 technology issues, new or modified statutory or regulatory requirements, and changing prices and market conditions. This section and the Company's Annual Report on Form 10-K for the year ended December 31, 1998, each identify other factors that could cause such differences. 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

On July 5, 1999, KACC's Gramercy, Louisiana alumina refinery was extensively damaged by an explosion in the digestion area of the plant. Approximately 24 employees were injured in the incident, several of them severely.

The cause of the incident is under investigation by KACC and governmental agencies. KACC's continuing investigation suggests that the incident was caused by a power distribution interruption involving the plant's on-site power house that caused process flow pumps to cease operating.

KACC has also identified certain other conditions that were present at the time of the incident and continues to investigate these and other matters.

As previously announced, KACC expects that production at

the plant will be curtailed for many months. KACC has declared force majeure with respect to certain of its sales and purchase contracts, but continues to work with customers to assist them in securing alternative sources of alumina.

More than 30 lawsuits have been filed against KACC alleging, among other things, property damage and personal injury as a result of the incident. 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.

KACC has significant amounts of property damage, business interruption, liability and workers compensation insurance coverage relating to the Gramercy incident. Deductibles and self-retention provisions under the insurance coverage for the Gramercy incident total $5.0 million.

The incident will cause KACC to incur incremental costs for clean-up and other activities in the second half of 1999 and will cause the affected operations to incur certain operating losses until production can be restored. Further, depending on the outcome of the ongoing investigations by various regulatory agencies, KACC could also be subject to certain fines or penalties, which may not be covered by insurance. However, based on what is known to date, the Company currently believes that the financial impact of this incident (in excess of the deductibles and self-retention provisions) will be largely offset by insurance coverage.

The accompanying consolidated financial statements as of and for the periods ended June 30, 1999, do not include any provisions for the Gramercy incident.

KACC has announced that its intention is to rebuild the Gramercy facility assuming that it is able to reach acceptable agreements with the various stakeholders to ensure the plant's competitive future. KACC hopes to have the plant operating at a reduced production level in mid-2000 and to have the plant completely operational by the end of 2000. However, there can be no assurance that the Gramercy facility will be made operational on this schedule.

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. As previously announced, 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 a result of the USWA strike, KACC temporarily curtailed three out of a total of eleven potlines at its Mead and Tacoma, Washington, aluminum smelters at September 30, 1998 (representing approximately 70,000 tons per year of production capacity out of a total combined production capacity of 273,000 tons per year at the facilities.) The first of the two Mead potline restarts began in March 1999 and was completed during the second quarter of 1999. Restart activities on the second of the two Mead potlines commenced during the second quarter of 1999, and the Company expects the line to be fully operational before the end of the third quarter of 1999. The timing for any restart of the Tacoma potline has yet to be determined and will depend upon market conditions and other factors.

While the Company initially experienced an adverse strike-related impact on its profitability, the Company currently believes that KACC's operations at the affected facilities have been substantially stabilized and will be able to run at, or near, full capacity, and that the effect of the incremental costs associated with operating the affected plants during the dispute was eliminated or substantially reduced as of January 1999 (excluding the impacts of the restart costs discussed above and the effect of market factors such as the continued market-related curtailment at the Tacoma smelter). However, no assurances can be given that KACC's efforts to run the plants on a sustained basis, without a significant business interruption or material adverse impact on the Company's operating results, will be successful.

KACC and the USWA continue to communicate. A series of bargaining sessions are scheduled for August 1999. The objective of KACC has been, and continues to be, to negotiate a fair labor contract that is consistent with its business

strategy and the commercial realities of the marketplace.

STRATEGIC INITIATIVES

The Company has previously disclosed that it believes it had met, and exceeded, its goal of achieving $120.0 million of pre-tax cost reductions and other profit improvements, independent of metal price changes, measured against 1996 results prior to the end of the third quarter of 1998, when the impact of such items as smelter operating levels, the USWA strike and changes in foreign currency exchange rates are excluded from the analysis. The Company remains committed to sustaining the full $120.0 million improvement and to generating additional profit improvements in future years; however, no assurances can be given that the Company will be successful in this regard.

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. The initial steps of this process resulted in the June 1997 acquisition of the Bellwood extrusion facility, the May 1997 formation of AKW L.P. ("AKW"), the rationalization of certain of the Company's Engineered Products operations, the Company's investment to expand its production capacity for heat treat flat-rolled products at its Trentwood, Washington, rolling mill, and the Company's fourth quarter 1998 decision to seek a strategic partner for further development and deployment of KACC's Micromill(TM) technology. This process has continued in 1999. In February 1999, KACC completed the acquisition of the remaining 45% interest in Kaiser LaRoche Hydrate Partners ("KLHP"), an alumina marketing venture, from its joint venture partner for a cash purchase price of approximately $10.0 million. Additionally, in April 1999, KACC completed the sale of its interest in AKW L.P., an aluminum wheel joint venture, to its partner, Accuride Corporation for $70.4 million. The cash sale represents a continuation of the Company's strategy to focus its resources and efforts in industry segments that are considered most attractive and in which it believes it is well positioned to capture value.

Another area of emphasis has been a continuing focus on managing the Company's legacy liabilities, including the Company's active pursuit of claims in respect of insurance coverage for certain incurred and future environmental costs, as evidenced by the Company's fourth quarter 1998, receipt of recoveries totaling approximately $35.0 million related to current and future claims against certain of its insurers. See Note 9 of Notes to Consolidated Financial Statements for the year ended December 31, 1998, for additional information regarding insurance recoveries.

Additional portfolio analysis and initiatives are continuing.

VALCO OPERATING LEVEL

The Company's 90%-owned Volta Aluminium Company Limited ("Valco") smelter in Ghana operated only one of its five potlines during most of 1998. Each of Valco's potlines is capable of producing approximately 40,000 tons per year of primary aluminum. Valco earned compensation in 1998 (in the form of energy credits to be utilized over the last half of 1998 and during 1999) from the Volta River Authority ("VRA") in lieu of the power necessary to run two of the potlines that were curtailed during 1998. The compensation substantially mitigated the financial impact in 1998 of the curtailment of such lines. However, Valco did not receive any compensation from the VRA for one additional potline which was curtailed in January 1998. Valco currently expects to operate an average of three lines during 1999, an operating rate that it reached during the second quarter of 1999.

Valco has notified the VRA that it believes it had the contractual rights at the beginning of 1998 and 1999 to sufficient energy to run four and one-half potlines for the balance of both years. Valco continues to seek compensation from the VRA with respect to the 1998 and 1999 reductions in its power allocation. Valco and the VRA also are in continuing discussions concerning other matters, including steps that might be taken to reduce the likelihood of power curtailments in the future. No assurances can be given as to the success of these discussions.

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 ended June 30,

1999 and 1998. 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 11 of Notes to Consolidated Financial Statements for the year ended December 31, 1998, 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,	
	1999	1998	1999	1998
Shipments: (000 tons)				
Alumina				
Third Party	611.4	652.5	1,098.4	1,077.1
Intersegment	189.3	196.6	339.6	412.4
Total Alumina	800.7	849.1	1,438.0	1,489.5
Primary Aluminum				
Third Party	69.0	68.3	131.9	148.8
Intersegment	46.3	42.5	85.8	86.1
Total Primary Aluminum	115.3	110.8	217.7	234.9
Flat-Rolled Products	59.0	63.6	111.5	123.3
Engineered Products	43.5	44.2	84.9	90.0
Average Realized Third Party Sales Price: (1)				
Alumina (per ton)	$ 170	$ 197	$ 171	$ 198
Primary Aluminum (per pound)	$ .66	$ .70	$ .65	$ .71
Net Sales:				
Bauxite and Alumina				
Third Party (includes net sales of bauxite)	$ 110.8	$ 136.9	$ 200.5	$ 230.2
Intersegment	29.6	36.1	52.6	78.3
Total Bauxite & Alumina	140.4	173.0	253.1	308.5
Primary Aluminum				
Third Party	100.5	105.8	189.6	232.0
Intersegment	63.1	61.0	112.2	127.8
Total Primary Aluminum	163.6	166.8	301.8	359.8
Flat-Rolled Products	155.3	197.0	303.6	391.3
Engineered Products	137.8	156.0	271.3	318.6
Minority Interests	20.6	19.2	39.4	39.8
Eliminations	(92.7)	(97.2)	(164.8)	(206.2)
Total Net Sales	$ 525.0	$ 614.8	$ 1,004.4	$ 1,211.8
Operating Income (Loss):				
Bauxite & Alumina	$ (3.5)	$ 17.8	$ (11.3)	$ 29.4
Primary Aluminum (2)	1.6	22.1	(20.5)	42.2
Flat-Rolled Products	7.5	23.2	14.9	39.5
Engineered Products	10.7	15.2	17.6	31.5
Micromill(TM)	(3.0)	(4.7)	(6.3)	(9.9)
Eliminations	1.9	(.7)	5.5	2.4
Corporate	(14.5)	(17.6)	(32.2)	(35.0)
Total Operating Income (Loss)	$ .7	$ 55.3	$ (32.3)	$ 100.1
Net Income (Loss)	$ (15.7)	$ 16.7	$ (53.9)	$ 28.7
Capital Expenditures	$ 13.8	$ 23.0	$ 30.3	$ 36.7

(1) 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.
(2) Results for the Primary aluminum segment include potline restart costs of $2.5 and $9.6 for the quarter and six-month periods ended June 30, 1999, respectively.

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 5 of Notes to Interim Consolidated Financial Statements for a discussion of KACC's hedging activities.

During 1998, the Average Midwest United States transaction price ("AMT Price") per pound of primary aluminum experienced a steady decline during the year, beginning the year in the $.70 to $.75 range and ending the year in the low $.60 range. During the first quarter of 1999, the AMT Price for primary aluminum was in the $.57 to $.59 per pound range most of the quarter, but increased in March 1999 and ended the second quarter at approximately $.67. The AMT Price for primary aluminum for the week ended July 30, 1999, was approximately $.68 per pound.

QUARTER AND SIX MONTHS ENDED JUNE 30, 1999, COMPARED TO QUARTER AND SIX MONTHS ENDED JUNE 30, 1998

SUMMARY

The Company reported a net loss of $15.7 million or $.20 of basic loss per share, for the second quarter of 1999, compared to a net income of $16.7 million, or $.21 of basic earnings per share, for the same period of 1998. Results for the quarter ended June 30, 1999, included a pre-tax gain of $50.5 million, or $.42 per share, on the sale of the Company's interests in AKW. The gain was offset by a non-cash pre-tax charge of $38.0 million, or $.32 per share, for asbestos-related claims and a pre-tax charge of $13.5 million, or $.11 per share, to reflect a mark-to-market adjustment on certain primary aluminum hedging transactions. Results for the quarter ended June 30, 1998, included charges related to additional litigation reserves of $3.9 million.

For the six-month period ended June 30, 1999, the Company reported a net loss of $53.9 million, or basic loss per share of $.68 compared to net income of $28.7 million, or basic earnings per share of $.36 for the six-month period ended June 30, 1998.

Net sales for the second quarter of 1999 totaled $525.0 million compared to $614.8 million in the second quarter of 1998. Net sales for the six-month period ended June 30, 1999, were $1,004.4 million compared to $1,211.8 for the first six months of 1998.

BAUXITE AND ALUMINA

Third party net sales of alumina declined 19% for the quarter ended June 30, 1999, as compared to the same period in 1998 as a result of a 14% decline in third party average realized price and a 6% decline in third party alumina shipments. The decline in 1999 third party average realized prices resulted from lower first quarter 1999 market prices for primary aluminum on the Company's alumina sales contracts, substantially all of which are linked (on a lagged basis of up to three months) to changes in primary aluminum market prices. Although market prices for primary aluminum recovered somewhat during the second quarter of 1999, the beneficial impacts of these price increases on the segment's operating income will not be fully realized until the third quarter of 1999. The impact of lower prices for primary aluminum in 1999 on the Company's third party average realized prices was partially offset by allocated net gains from the KACC hedging activities. The decline in third party shipments of alumina between the second quarter of 1999 and 1998 resulted primarily from differences in the timing of shipments rather than any specific operating trend.

Intersegment net sales for the second quarter of 1999 declined by 22% as compared to the same period in 1998. The decline in net sales was primarily due to a 14% decline in intersegment average realized price due to lower primary aluminum prices as well as a decline in intersegment shipments, resulting from potline curtailments at the Company's Washington smelters and Valco.

For the six-month period ended June 30, 1999, third party net sales of alumina were 12% lower than the comparable period in 1998 as a 14% decline in average realized prices was only partially offset by a 2% increase in third party shipments. The decline in average realized prices during the first six months of 1999 as compared to 1998 was attributable to the linkage of third party sales contracts to primary aluminum prices as more fully described above, offset by allocated net gains from KACC's hedging activities. The increase in year-over-year shipments was the result of the timing of individual shipments, rather than a specific operating trend.

Intersegment net sales for the six-month period ended June 30, 1999, declined by 33% as compared to the same period in

1998. The decline in net sales was primarily due to the 14% decline in intersegment average realized price due to lower primary aluminum prices as well as reduced intersegment shipments, resulting from potline curtailments at the Company's Washington smelters and Valco.

Segment operating income for the quarter and six-month periods ended June 30, 1999, were down significantly from the comparable periods of 1998 primarily as a result of the price and, to a lesser extent, the volume factors discussed above.

PRIMARY ALUMINUM

Third party net sales of primary aluminum for the second quarter of 1999 were down 5% as compared to the same period in 1998 primarily as a result of a 6% decrease in average realized third party sales prices, reflecting lower market prices offset, in part, by allocated net gains from KACC's hedging activities. Partially offsetting the decline in average realized price was a 1% increase in third party shipments. Intersegment net sales in the second quarter of 1999 were up approximately 4% over 1998. Intersegment shipments increased 9% from the comparable prior year period while average realized price dropped by 5%. The decline in average realized price resulted from lower market prices for primary aluminum in 1999. The increase in intersegment shipments between 1999 and 1998 was due to the timing of shipments to the Company's fabricated business units, as on a year-to-date basis intersegment shipments were essentially flat.

For the six-month period ended June 30, 1999, third party net sales of primary aluminum declined approximately 16% from the comparable period in 1998, reflecting a 8% decline in third party average realized prices and an 11% reduction in third party shipments. The decline in third party average realized price reflects lower 1999 market prices for primary aluminum offset, in part, by allocated net gains from KACC's hedging activities. The reduction in third party shipments reflects the impact of the potline curtailments at KACC's Washington smelters. Intersegment net sales for the first half of 1999 were down 12% as compared to the same period in 1998. Intersegment average realized prices were down 12% reflecting lower market prices for aluminum. Intersegment shipments were essentially flat.

Segment operating income for the quarter and six-month periods ended June 30, 1999, was down significantly from the comparable periods of 1998. The most significant component of this decline was the reduction in average realized prices discussed above. However, also included in 1999 results were the adverse impact of the Valco and Washington smelter potline curtailments (including the fact that there is no mitigating compensation being earned in 1999 for the Valco potline curtailments) and costs of approximately $2.5 and $9.6 for the quarter and six-month periods ended June 30, 1999, respectively, associated with preparing and restarting potlines at Valco and the Washington smelters.

FLAT-ROLLED PRODUCTS

Net sales of flat-rolled products for the second quarter of 1999 declined by 21% compared to the second quarter of 1998 as a result of a 14% decline in average realized prices and a 7% decline in shipments. The reduction in shipments was due to reduced demand in 1999 for aerospace heat treat products offset, in small part, by increased shipments of general engineering products. The decline in 1999 average realized prices resulted from a shift of product mix (from aerospace products, which have a higher price and operating margin, to other products) as well as the impact of lower market prices for primary aluminum.

For the six-month period ended June 30, 1999, net sales of flat rolled products declined by 22% from the comparable period in 1998 as a result of a 14% decline in average realize price and a 10% decline in product shipments. The declines in year-to-date 1999 prices and shipments as compared to 1998 were attributable to the same factors described above for the second quarter of 1999 and were also responsible for the significant decline in segment operating income both for the second quarter and year-to-date periods.

ENGINEERED PRODUCTS

Second quarter 1999 net sales of engineered products declined by approximately 12% compared to the second quarter of 1998, reflecting a 10% decline in average realized prices and a 2% decline in product shipments. The decline in quarterly shipments was due to reduced demand in 1999 for aerospace products offset almost entirely by a strong increase in 1999 demand for ground transportation products. The reduction in average realized price between periods was attributable to the change in product mix (lower aerospace shipments offset by higher ground transportation shipments) as well as lower 1999 market prices for primary aluminum. For the six-month period ended June 30, 1999, net sales of

engineered products declined by approximately 15% from the comparable period in 1998, as a result of a 10% decline in average realized prices and a 6% declined in product shipments. The reasons for the year-to-date price and volume declines were the same as the factors that affected the second quarter of 1999.

Segment operating income for the 1999 quarter and year-to-date periods declined from the comparable periods in 1998 as a result of the reduced equity in earnings from AKW as well as the product mix shift discussed above.

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 included corporate general and administrative expenses which were not allocated to the Company's business segments.

LIQUIDITY AND CAPITAL RESOURCES

OPERATING ACTIVITIES

At June 30, 1999, the Company had working capital of $412.0 million, compared with working capital of $471.6 million at December 31, 1998. The decrease in working capital primarily resulted from a decrease in Cash and cash equivalents. Increases in Prepaid expenses and other current assets, primarily resulting from increased insurance deposits, were generally offset by an increase in Other accrued liabilities resulting primarily from an increase in expected payments for asbestos-related costs. Changes in Receivables, Inventories and Accounts payable reflect reduced metal prices in 1999 as well as other factors described in "Results of Operations."

INVESTING ACTIVITIES

Capital expenditures during the six months ended June 30, 1999, were $30.3 million. The only significant expenditure was the purchase of the remaining 45% interest in KLHP for approximately $10.0 million. The remainder of the year-to-date 1999 capital expenditures were primarily used to improve production efficiency and reduce operating costs.

Total consolidated capital expenditures (of which approximately 8% is expected to be funded by the Company's minority partners in certain foreign joint ventures) are expected to be between $70 and $90 million per annum in each of 1999 through 2001, prior to any consideration of plans to rebuild the Gramercy facility. 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

At June 30, 1999, the Company had long-term debt of $962.7 million, compared with $963.0 million at December 31, 1998.

At June 30, 1999, $273.7 million (of which $73.7 million could have been used for letters of credit) was available to KACC under the Credit Agreement and no amounts were outstanding under the revolving credit facility. 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.

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 meet its working capital and capital expenditure requirements for the next year. Additionally, 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 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 certain pledge agreements 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 or KACC to pay any dividends on their common stock.

OTHER MATTERS

YEAR 2000 READINESS DISCLOSURE

The Company utilizes software and related technologies throughout its business that will be affected by the date change to the year 2000. There may also be technology embedded in certain of the equipment owned or used by the Company that is susceptible to the year 2000 date change as well. The Company has implemented a company-wide program to coordinate the year 2000 efforts of its individual business units and to track their progress. The intent of the program is to make sure that critical items are identified on a sufficiently timely basis to assure that the necessary resources can be committed to address any material risk areas that could prevent the Company's systems and assets from being able to meet the Company's business needs and objectives. Year 2000 progress and readiness has also been the subject of the Company's normal, recurring internal audit function.

Each of the Company's business units has developed year 2000 plans specifically tailored to its individual situations. A wide range of solutions is being implemented, including modifying existing systems and, in limited cases where it is cost effective, purchasing new systems. Total spending related to these projects, which began in 1997 and is expected to continue through 1999, is currently estimated to be in the $10-15 million range. As of June 30, 1999, the Company estimates that approximately $3 million of year 2000 expenditures are yet to be incurred. Such remaining amounts are expected to be incurred over the balance of 1999, primarily in the third quarter of the year. System modification costs are being expensed as incurred. Costs associated with new systems are being capitalized and will be amortized over the life of the system. In total, the Company believes that its remediation and testing efforts are approximately 85% complete at July 31, 1999. The balance is expected to be substantially completed by the end of the third quarter of the year. The Company plans to commit the necessary resources for these efforts.

In addition to addressing the Company's internal systems, the company-wide program involves identification of key suppliers, customers, and other third-party relationships that could be impacted by year 2000 issues. A general survey has been conducted of the Company's supplier and customer base. Direct contact has been made, or is in progress, with parties which are deemed to be particularly critical including financial institutions, power suppliers, and customers, with which the Company has a material relationship.

Each business unit, including the corporate group, is developing a contingency plan covering the steps that would be taken if a year 2000 problem were to occur despite the Company's best efforts to identify and remediate all critical at-risk items. Formal contingency plans have been completed for approximately 75% of the Company's facilities and their individual systems as of July 31, 1999. Contingency plans for the remaining facilities and systems are expected to be completed by October 31, 1999. When complete, each contingency plan will address, among other things, matters such as alternative suppliers for critical inputs, incremental standby labor requirements at the millennium to address any problems as they occur, and backup processing capabilities for critical equipment or processes. The goal of the contingency plans will be to minimize any business interruptions and the associated financial implications.

While the Company believes that its program is sufficient to identify the critical issues and associated costs necessary to address possible year 2000 problems in a timely manner, there can be no assurances that the program or underlying steps implemented will be successful in resolving all such issues prior to the year 2000. If the steps taken by the Company (or critical third parties) are not made in a timely manner, or are not successful in identifying and remediating all significant year 2000 issues, business interruptions or delays could occur and could have a material adverse impact on the Company's results and financial condition. However, based on the information the Company has gathered to date and the Company's expectations of its ability to remediate problems encountered, the Company currently believes that significant

business interruptions that would have a material impact on the Company's results or financial condition will not be encountered.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

See Part I, Item 7A. "QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK" in the Company's Form 10-K for the year ended December 31, 1998.

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

The annual meeting of stockholders of the Company was held on May 19, 1999, 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 with held 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: 75,504,199
- Votes Against:
- Votes Withheld: 145,483
- Abstentions:
- Broker Nonvotes:

George T. Haymaker, Jr.
- Votes For: 75,503,674
- Votes Against:
- Votes Withheld: 146,008
- Abstentions:
- Broker Nonvotes:

Charles E. Hurwitz
- Votes For: 75,453,477
- Votes Against:
- Votes Withheld: 196,205
- Abstentions:
- Broker Nonvotes:

Ezra G. Levin
- Votes For: 75,499,799
- Votes Against:
- Votes Withheld: 149,883
- Abstentions:
- Broker Nonvotes:

Raymond J. Milchovich
- Votes For: 75,505,799
- Votes Against:
- Votes Withheld: 143,883
- Abstentions:
- Broker Nonvotes:

James D. Woods
- Votes For: 75,498,899
- Votes Against:
- Votes Withheld: 150,783
- Abstentions:
- Broker Nonvotes:

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

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 4 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, 1998.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits.

Exhibit No. Exhibit

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3.1	Restated Certificate of Incorporation of Kaiser Aluminum Corporation (the "Company" or "KAC"), dated February 21, 1991 (incorporated by reference to Exhibit 3.1 to Amendment No. 2 to the Registration Statement on Form S-1, dated June 11, 1991, filed by KAC, Registration No. 33-37895).
3.2	Certificate of Retirement of KAC, dated October 24, 1995 (incorporated by reference to Exhibit 3.2 to the Report on Form 10-K for the period ended December 31, 1995, filed by KAC, File No. 1-9447).
3.3	Certificate of Retirement of KAC, dated February 12, 1998 (incorporated by reference to Exhibit 3.3 to the Report on Form 10-K for the period ended December 31, 1997, filed by KAC, File No. 1-9447).

Exhibit No.	Exhibit
*3.4	Certificate of Elimination of KAC, dated July 1, 1998.
3.5	Amended and Restated Bylaws of KAC, dated October 1, 1997 (incorporated by reference to Exhibit 3.3 to the Report on Form 10-Q for the quarterly period ended September 30, 1997, filed by KAC, File No. 1-9447).
*10.1	Employment Agreement, dated as of June 1, 1999, between Kaiser Aluminum & Chemical Corporation and Raymond J. Milchovich.
*10.2	Restated Promissory Note, dated June 14, 1999, from Raymond J. Milchovich to Kaiser Aluminum & Chemical Corporation.

*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, 1999. However, subsequent to June 30, 1999, two Form 8-K's were filed.

A Report on Form 8-K was filed by the Company on July 2, 1999, announcing the expected impact of certain non-operating adjustments on second quarter 1999 results.

A Report on Form 8-K was filed by the Company on July 9, 1999, announcing that on July 5, 1999, KACC's Gramercy, Louisiana alumina refinery had been extensively damaged by an explosion and that production at the plant would be curtailed for several months.

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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 13, 1999

Exhibit 3.4

CERTIFICATE OF ELIMINATION
OF
KAISER ALUMINUM CORPORATION
UNDER
SECTION 151 OF THE GENERAL CORPORATION LAW OF DELAWARE

In accordance with Section 151 of the General Corporation Law of the State of Delaware, Kaiser Aluminum Corporation (the "Corporation"), a Delaware corporation, DOES HEREBY CERTIFY:

FIRST: That the following resolution has been adopted by the Board of Directors of the Corporation:

"RESOLVED, that none of the authorized shares of the 8.255% PRIDES, Convertible Preferred Stock, par value $.05 per share, (the "8.255% PRIDES") of Kaiser Aluminum Corporation (the "Corporation"), are outstanding; and that none will be issued subject to the Certificate of Designations of 8.255% PRIDES, Convertible Preferred Stock of Kaiser Aluminum Corporation previously filed with respect to the 8.255% PRIDES."

SECOND: That when this Certificate of Elimination becomes effective in accordance with Section 103 of the General Corporation Law of the State of Delaware, it shall have the effect of eliminating from the Restated Certificate of Incorporation of the Corporation all matters set forth in the Certificate of Designations of 8.255% PRIDES, Convertible Preferred Stock of Kaiser Aluminum Corporation with respect to the 8.255% PRIDES.

IN WITNESS WHEREOF, the Corporation has caused this Certificate of Elimination to be signed by E. Bruce Butler, a Vice President, and attested by John Wm. Niemand II, its Secretary, this 1st day of July, 1998.

KAISER ALUMINUM CORPORATION

By: /S/ E. BRUCE BUTLER
E. Bruce Butler, Vice President

ATTEST:

/S/ JOHN WM. NIEMAND II
John Wm. Niemand II, Secretary
[Corporate Seal]

EMPLOYMENT AGREEMENT

This Agreement (the "Agreement") is made effective for the period from June 1, 1999 to December 31, 2004, (such term being hereinafter referred to as the "Employment Period") between Kaiser Aluminum & Chemical Corporation, a Delaware corporation ("Company"), and Raymond J. Milchovich ("Executive").

WHEREAS, Executive is currently employed by the Company as a senior executive and Chief Operating Officer; and

WHEREAS, the Company desires to secure the services of Executive as Chief Executive Officer effective as of January 1, 2000, and Executive desires to perform such services for the Company, on the terms and conditions as set forth herein;

NOW, THEREFORE, in consideration of the premises and of the covenants and agreements set forth below, it is mutually agreed as follows:

1. Effective Date, Term and Duties. The term of employment of Executive by the Company hereunder shall commence effective as of January 1, 2000 and end on December 31, 2004, (the "Employment Period") unless earlier terminated pursuant to Section 4.

Executive shall have such duties as the Company may from time to time prescribe consistent with his position as Chief Executive Officer of the Company (the "Services"). Executive shall report directly to the Board of Directors. Executive shall devote his full time, attention, energies and best efforts to the business of the Company. The Executive shall relocate his office to Houston, Texas.

2. Compensation. The Company shall pay and Executive shall accept as full consideration for the Services compensation consisting of the following:

2.1 Base Salary. Effective upon announcement of the promotion, $550,000 per year base salary, payable in installments in accordance with the Company's normal payroll practices, less such deductions or withholdings required by law. On January 1, 2000, an increase to no less than $630,000 per year will be effective which will subsequently increase to no less than $692,000 on January 1, 2001 and no less than $750,000 on January 1, 2002. Base Salary shall be reviewed annually by the Compensation Committee of the Company to evaluate the performance of Executive and his duties hereunder, and in any event on and after January 1, 2003 will be adjusted for inflation consistent with the general program of increases for other executives and management employees.

2.2 Annual Bonus. A target bonus equal to 80% of base salary per year ("Target Annual Bonus") shall be payable based on the attainment by the Company of the Short-Term Bonus Plan Objectives under the Company's Executive Bonus Plan for each such year, which such Short-Term Bonus Plan Objectives shall be agreed upon by the Executive and the Company annually and shall be consistent with the Company's business plan for the relevant year.

2.3 Long-Term Compensation. Upon execution hereof Executive shall receive a stock option grant of 750,000 shares under the Company's Stock Option Plan. Twenty percent (20%) or 150,000 of the stock options will be granted at $9.50, 40% or 300,000 of the options will be granted with an exercise price of $12.35, and the remaining 40% or 300,000 of the options will have an exercise price of $14.25. The schedule in Exhibit A illustrates the value of the new stock option grant and 60% of the 1998 stock option grant at various strike prices. The new (750,000) options will have an exercise period of ten years from date of grant. Such options shall be in lieu of any payment of long-term incentive compensation under the Company's Executive Bonus Plan ("Plan") for the five year period beginning January 1, 2000, although Executive shall be eligible for additional option grants at the discretion of the Company's Compensation Committee. The existing grant will continue to vest as scheduled and the new grant shall vest at the rate of 20% per year, beginning on January 1, 2001, unless: (i) Executive becomes employed by an affiliate or "spin-out" of Kaiser Aluminum, in which case a pro rata amount of the options will vest equal to the percentage of days during the Employment Period which the Executive has been employed; or (ii) Executive's service is terminated by the Company for any reason other than for "Cause", or Executive's employment terminates by the expiration of the Employment Period without an offer for continued employment by the Company for a position of responsibility comparable to that held by Executive at the beginning of the Employment Period and on substantially the same or improved terms and conditions, or Executive

terminates his employment for "Good Reason" or in event of a Change in Control in which cases vesting of all outstanding options is accelerated as provided in Section 4.

Such option grant shall provide that upon exercise of any option, Executive will be entitled to receive shares pursuant to the Company's Stock Option Plan but also any securities that have been distributed in respect to such shares. For example, if the Company were to spin off part of its business as a new company and distribute to its stockholders one share of stock of the new company for each one share of stock under the Company's Stock Option Plan, then, upon a subsequent exercise by Executive of the stock under the Company's Stock Option Plan, Executive would also receive one new company share along with one share under the Company's Stock Option Plan. All such grants shall be governed by the Company's Stock Option Plan and by the agreement executed by the Company and Executive at the time of the option grant.

2.4 Indemnification. In the event Executive is made, or threatened to be made, a party to any legal action or proceeding, whether civil or criminal, by reason of the fact that Executive is or was a director or officer of the Company or serves or served any other corporation fifty percent (50%) or more owned or controlled by the Company in any capacity at the Company's request, Executive shall be indemnified by the Company, and the Company shall pay Executive related expenses when and as incurred, all to the fullest extent permitted by law, provided, however, that the Company shall have the right of defense to any action or proceeding.

3. Benefits during Employment Period. Employee will be eligible to participate in the Company's employee benefit plans of general application, including, without limitation, those plans covering medical disability and life insurance in accordance with the rules established for individual participation in any such plan and under applicable law. Employee will be eligible for vacation and sick leave in accordance with the policies in effect during the term of this Agreement and will receive such other benefits as the Company generally provides to its other employees of comparable position and experience.

4. Benefits Upon Termination. Notwithstanding anything in the Agreement to the contrary, if (i) Executive's employment is terminated during the Employment Period for any reason other than (a) termination by the Company for "Cause" (as defined in Subsection 4.1), (b) acceptance by Executive of an offer of employment with an affiliate of the Company, or (c) a voluntary termination by Executive for other than "Good Reason", then Executive will be entitled to receive the following benefits:

(A) An Early Retirement Lump Sum Payment by the Company as described below:

The Early Retirement Lump Sum Payment by the Company shall be equal to the excess, if any, of the sum of (i) plus (ii) less the amount computed in accordance with (iii).

(i) The lump sum benefit from the Kaiser Aluminum Salaried Employees Retirement Plan (KRP) that the Executive would have been entitled to as of the date of his actual termination calculated, for this purpose, as if the terms of KRP in effect on such date were identical to the terms of KRP in effect on the effective date of this Agreement (except for such changes required to maintain the qualified status of KRP), and as if the Executive qualified for a KRP Full Early Retirement Pension: provided, however, in calculating such amount, his actual age, credited service, social security benefits and final average monthly compensation in effect on the date of his actual termination shall be used as well as the daily yields on longer term treasury issues and the PBGC applicable interest rates in effect on such date.

(ii) The lump sum benefit from the Kaiser Aluminum Supplemental Benefits Plan (KASBP) based on KRP limitations, that the Executive would have been entitled to as of the date of his actual termination calculated, for this purpose, as if (i) the terms of KASBP in effect on such date were identical to the terms of KASBP in effect on the effective date of this Agreement, (ii) the Executive qualified for a KRP Full Early Retirement Pension, and (iii) the other assumptions set forth in "(i)" above including interest rates were in effect in calculating the benefits under Section C-2(a) and (b) of KASBP.

(iii) An amount equal to the lump sum actuarial equivalent of (a) the Executive's actual benefit payable from KRP on account of his actual termination, plus (b) the Executive's actual benefit payable from KASBP based on KRP limitations on account of his actual termination.

(B) Full health benefits as if the Executive had qualified

for an Early Retirement Pension.

(C) A lump sum amount equal to Executive's base salary as of the date of Executive's termination for a period equal to the greater of (i) the number of months remaining in the Employment Period or (ii) two years. In addition, Executive shall be entitled to receive Executive's Target Annual Bonus for the year of termination in one lump sum payment. Such salary and Target Annual Bonus payments shall be referred to as "Termination Pay". Such Termination Pay shall be in lieu of any claims Executive may have had with respect to termination benefits.

(D) All of the unvested stock options held by Executive on the date of such termination that would have vested during the Employment Period shall immediately vest and become exercisable in full for the remaining portion of the applicable period.

4.1 Circumstances Under Which Termination Benefits Would Not Be Paid. The Company shall not be obligated to pay Executive the termination benefits pursuant to Section 4 if the Executive's employment is terminated for Cause. For purposes of this Agreement, "Cause" shall be limited to (1) Executive's gross misconduct or fraud, in the performance of his employment; (2) Executive's conviction or guilty plea with respect to any felony (except for motor vehicle violations); or (3) Executive's material breach of this Agreement after written notice delivered to Executive of such breach and a reasonable opportunity to cure such breach.

4.2 Constructive Termination. Notwithstanding anything in this Section 4 or Section 5 to the contrary, the Employment Period will be deemed to have been terminated (a "Constructive Termination") and Executive will be deemed to have Good Reason for voluntary termination of the Employment Period ("Good Reason"), if there should occur:

(A) a material adverse change in Executive's position causing it to be of materially less stature or responsibility without Executive's written consent, and such a materially adverse change shall in all events be deemed to occur if on and after January 1, 2000 Executive no longer serves as Chief Executive Officer reporting to the Board of Directors, unless Executive consents in writing to such change;

(B) a reduction, without Executive's written consent, in his level of base compensation (including base salary and fringe benefits) by more than ten percent (10%) or a reduction by more than ten percent (10%) in his Target Annual Bonus under the CEO Bonus Plan; or

(C) a relocation of his principal place of employment by more than 50 miles without Executive's consent, after Executive's relocation to Houston, Texas.

4.3 Termination by Reason of Death or Disability. In the event of Employee's death during the Employment Period, the Company shall pay to Employee or Employee's estate Employee's Target Annual Bonus for the Company's fiscal year in which death occurred or, if no such Target Annual Bonus has been scheduled, an amount equal to the Target Annual Bonus paid to Employee for the Company's fiscal year immediately preceding the year in which death occurred. In addition, Employee's estate will receive payment for all salary, bonuses and unpaid Vacation accrued as of the date of Employee's death and any other benefits payable under the Company's then existing benefit plans and policies in accordance with such plans and policies in effect on the date of death and in accordance with applicable law. In the event that during the term of this Agreement, Employee is unable to perform his job due to disability (as determined under the Company's long-term disability insurance program) for six (6) months in any twelve (12) month period, the Company may, at its election, terminate Employee's employment with the Company and such termination shall be deemed to be termination by the Company other than for Cause and Employee shall be entitled to receive the benefits set forth in Section 4 hereof.

5. Change in Control

Should there occur a Change in Control (as defined below), then the following provisions shall become applicable:

(A) During the period (if any) following a Change in Control that Executive shall continue to provide the Services, then the terms and provisions of this Agreement shall continue in full force and effect, and Executive shall continue to vest in all of his unvested stock options; or

(B) In the event of (x) a termination of the employment by the Company other than for Cause or (y) a termination of

employment by Executive for any reason within twelve (12) months following such Change in Control the benefits listed in Section 4 shall become due and payable:

For purposes of this Section 5, a Change of Control shall be deemed to occur upon:

(I) the sale, lease, conveyance or other disposition of all or substantially all of the Company'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;

(II) 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, of more than 50% of the aggregate voting power of all classes of common equity of the Company, except if such Person is (A) a subsidiary of the Company, (B) an employee stock ownership plan for employees of the Company or (C) a company formed to hold the Company's common equity securities and whose shareholders constituted, at the time such company became such holding company, substantially all the shareholders of the Company; or

(III) a change in the composition of the Company'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 (a) have been Board members continuously since the beginning of such period, or (b) 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 (a) who were still in office at the time such election or nomination was approved by the Board.

In the event that the severance and other benefits provided to Executive constitute "parachute payments" within the meanings of Section 28OG of the Internal Revenue Code of 1986, as amended (the "Code"), either alone or in conjunction with other payments, Executive has the right to receive either directly or indirectly from the Company (the "Total Payments"), that would constitute an excess parachute payment under Section 28OG of the Code. Company agrees to pay Executive an amount (the "Gross-up Payment"), such that after payment by Executive of all taxes, including interest and penalties imposed with respect to such taxes, including any excise tax imposed by Section 4999 of the Code, (the "Excise Tax") Executive retains an amount of the Gross-up Payment equal to the Excise Tax imposed upon the Total Payments.

Unless the Company and Executive otherwise agree in writing, any determination required under this Section 5 shall be made in writing by independent public accountants agreed to by the Company and Executive (the "Accountants"), whose determination shall be conclusive and binding upon Executive and the Company for all purposes. For purposes of making the calculations required by this Section 5, the Accountants may make reasonable assumptions and approximations concerning applicable taxes and may rely on reasonable, good faith interpretations concerning the application of Sections 28OG and 4999 of the Code. The Company and Executive shall fumish to the Accountants such information and documents as the Accountants may reasonably request in order to make a determination under this Section 5. The Company shall bear all costs the Accountants may reasonably incur in connection contemplated by this Section 5.

6. Dispute Resolution. The Company and Executive agree that any dispute regarding the interpretation or enforcement of this Agreement shall be decided by confidential, final and binding arbitration conducted by Judicial Arbitration and Mediation Services ("JAMS") under the then-existing JAMS rules, rather than by litigation in court, trial by jury, administrative proceeding, or in any other forum. Executive and Company agree that in any dispute resolution proceedings arising out of this Agreement, the Company shall be responsible for all reasonable attorney's fees and costs incurred by Executive, not to exceed $10,000 in connection with the resolution of the dispute in addition to any other relief granted.

7. Cooperation with the Company After Termination of the Employment Period. Following termination of the Employment Period by Executive, Executive shall fully cooperate with the Company in all matters relating to the winding up of his pending work on behalf of the Company and the orderly transfer of any such pending work to other employees of the Company as may be designated by the Company.

8. Confidentiality; Return of Property. Executive acknowledges that an Employee Invention and Confidential

Information Agreement executed by Executive on October 28, 1996 will continue in effect.

9. Non-Competition. Executive agrees that a Noncompetition Agreement shall be executed by Executive and attached hereto as Exhibit B shall continue in effect.

10. General.

10.1 Waiver. Neither party shall, by mere lapse of time, without giving notice or taking other action hereunder, be deemed to have waived any breach by the other party of any of the provisions of this Agreement. Further, the waiver by either party of a particular breach of this Agreement by the other shall neither be construed as, nor constitute a, continuing waiver of such breach or of other breaches by the same or any other provision of this Agreement.

10.2 Severability. If for any reason a court of competent jurisdiction or arbitrator finds any provision of this Agreement to be unenforceable, the provision shall be deemed amended as necessary to conform to applicable laws or regulations, or if it cannot be so amended without materially altering the intention of the parties, the remainder of the Agreement shall continue in full force and effect as if the offending provision were not contained herein.

10.3 No Mitigation. Executive shall have no duty to mitigate the Company's obligation with respect to the termination payments set forth in Sections 4 or 5 by seeking other employment following termination of his employment, nor shall such termination payments be subject to offset or reductions by reason of any compensation received by Executive from such other employment. The Company's obligations to make payments under Sections 4 or 5 shall not terminate in the event Executive accepts other full time employment.

10.4 Notices. All notices and other communications required or permitted to be given under this Agreement shall be in writing and shall be considered effective upon personal service or upon depositing such notice in the U.S. Mail postage prepaid, return receipt requested and addressed to the Chairman of the Board of the Company at its principal corporate address, and to Executive at his most recent address shown on the Company's corporate records, or at any other address which he may specify in any appropriate notice to the Company.

10.5 Counterparts. This Agreement may be executed in any number of counterparts, each of which shall be deemed an original and all of which taken together constitutes one and the same instrument and in making proof hereof it shall not be necessary to produce or account for more than one such counterpart.

10.6 Entire Agreement. The parties hereto acknowledge that each has read this Agreement, understands it, and agrees to be bound by its terms. The parties further agree that this Agreement and the referenced stock option agreement constitute the complete and exclusive statement of the agreement between the parties and supersedes all proposals (oral or written), understandings, representations, conditions, covenants, and all other communications between the parties relating to the subject matter hereof. The parties further agree that this Agreement supersedes the employment agreement between the Company and Executive effective June 1, 1998. Notwithstanding anything to the contrary, Sections 4 and 5 of this Agreement shall govern all options issued to Executive by the Company prior to and after the effective date of this Agreement.

10.7 Governing Law. This Agreement shall be governed by the law of the State of Texas.

10.8 Assignment and Successors. The Company shall have the right to assign its rights and obligations under this Agreement to an entity which acquires substantially all of the assets of the Company. The rights and obligation of the Company under this Agreement shall inure to the benefit and shall be binding upon the successors and assigns of the Company.

IN WITNESS WHEREOF, the parties have executed this Agreement on the date first above written.

KAISER ALUMINUM & CHEMICAL CORPORATION	EXECUTIVE

By: /s/ George T. Haymaker, Jr. /s/ Raymond J. Milchovich

Raymond J. Milchovich

Name: George T. Haymaker, Jr.

Title: Chairman and Chief Executive Officer

EXHIBIT B
AGREEMENT REGARDING NON-COMPETITION

This Agreement is by and between the employer, Kaiser Aluminum & Chemical Corporation ("Company") and Raymond J. Milchovich ("Executive"). In consideration of the Company's employment of Executive, the compensation paid for Executive's services in the course of such employment, and the training (internal and external, formal and informal) received by Executive in the course of such employment, Executive agrees as follows:

1. NON-COMPETITION. During the term of employment and for a period of two (2) years after the termination of employment, Executive agrees that he will not knowingly, for any person or entity other than the Company or its affiliates, directly or indirectly, own, manage, operate, join, control or participate in, be compensated by or be connected with as an officer, employee, agent, consultant, partner, stockholder, or otherwise, any Competitive Business anywhere within which the Company conducts business.

2. SOLICITATION. As part of the consideration for the compensation and benefits to be paid to Executive thereunder, in keeping with Executive's duties as a fiduciary, and in order to protect Company's interest in the trade secrets of Company, and as an additional incentive for Company to enter into this Agreement, Executive agrees that Executive will not, directly or indirectly, for Executive or for others, knowingly induce any employee of Company or any of its affiliates to terminate his or her employment with Company or its affifiates, or knowingly hire or assist in the hiring of any such employee by any person, association, or entity not affiliated with Company. The obligations in this Section shall extend throughout the Term of this Agreement and for a period of two (2) years after the termination of the employment relationship between Company and Executive.

3. ENFORCEABILITY. Executive acknowledges that money damages would not be sufficient remedy for any breach of this Agreement by Executive, and Company shall be entitled to specific performance and injunctive relief as remedies for such breach or any threatened breach. Such remedies shall not be deemed the exclusive remedies for a breach, but shall be in addition to all remedies available at law or in equity to Company, including, without limitation, the recovery of damages from Executive and his agents involved in such breach. If any provision of this Agreement is invalid or unenforceable, the remaining provisions shall continue in effect.

4. CONSTRUCTION. The terms of this Agreement may not be modified orally and may only be modified by a written instrument executed by the parties hereto. This Agreement shall be governed by and construed in accordance with the laws of the state of Texas.

5. SURVIVAL. The provisions of Sections 1 through 4 hereinabove shall give the termination of Executive's employment with the Company.

6. DUPLICATE ORIGINALS. This Agreement has been executed in duplicate originals.

KAISER ALUMINUM & CHEMICAL CORPORATION EXECUTIVE

By: /s/ George T. Haymaker, Jr. /s/ Raymond J. Milchovich

Raymond J. Milchovich

Name: George T. Haymaker, Jr.

Title: Chairman and Chief Executive Officer

Kaiser Aluminum & Chemical Corporation
Recommended Stock Option Grant

Assume that fair market value is considered to be $9.50

Five Year LTI Target $5,308,000
B-S Value of Previous Award $3,149,600
60% of Previous Grant as Offset to Target $1,889,760

Target New Grant Expected Value $3,418,240

Assume Option Awards Have a 10 Year Term(1)

(2)	Number of Options	Option Strike Price	Option Gains at Various Share Prices								
			$12	$15	$16.20	$17	$19	$21	$23	$25	$30
Options Issued at FMV	150,000	$ 9.50	$ 375,000	$ 825,000	$1,005,000	$1,125,000	$1,425,000	$ 1,725,000	$ 2,025,000	$ 2,325,000	$ 3,075,000
Options Issued at 130% of FMV	300,000	$12.35	$ -	$ 795,000	$1,155,000	$1,395,000	$1,995,000	$ 2,595,000	$ 3,195,000	$ 3,795,000	$ 5,295,000
Options Issued at 150% of FMV	300,000	$14.25	$ -	$ 225,000	$ 585,000	$ 825,000	$1,425,000	$ 2,025,000	$ 2,625,000	$ 3,225,000	$ 4,725,000
Total Value of New Award	750,000		$ 375,000	$1,845,000	$2,745,000	$3,345,000	$4,845,000	$ 6,345,000	$ 7,845,000	$ 9,345,000	$13,095,000
Value of 60% of Previous Award	381,000	$ 9.41	$ 986,790	$2,129,790	$2,586,990	$2,891,790	$3,653,790	$ 4,415,790	$ 5,177,790	$ 5,939,790	$ 7,844,790
GRAND TOTAL			$1,361,790	$3,974,790	$5,331,990	$6,236,790	$8,498,790	$10,760,790	$13,022,790	$15,284,790	$20,939,790

(1) The term of the new grant is ten years, but the options vest 20% per year beginning on January 1, 2001.

(2) The columns indicating the Black-Scholes values were eliminated because the approach is based on a targeted gain at the achievement of a stock price goal, rather than a Black-Scholes valuation methodology.

Exhibit 10.2

RESTATED PROMISSORY NOTE

$350,000.00

Houston, Texas
June 14, 1999

For value received, the undersigned hereby promises to pay to Kaiser Aluminum & Chemical Corporation, a Delaware corporation, or order, at 5847 San Felipe, Suite 2600, Houston, Texas, on or before the Maturity Date (as defined below) the lesser of (a) the principal amount of Three Hundred Fifty Thousand Dollars ($350,000.00), and (b) the aggregate unpaid principal amount outstanding under this Restated Promissory Note (this "Note"). No interest will be due and payable with respect to such amounts paid on or before the Maturity Date.

Amounts borrowed by the undersigned and evidenced by this Note may be used only to purchase (including remodel) the undersigned's new principal residence in Houston, Texas. The undersigned may borrow under this Note from time to time between the date hereof and the Maturity Date. Any amount borrowed under this Note may be repaid, in whole or in part and from time to time before the Maturity Date, without premium or penalty. Amounts borrowed and repaid may not be reborrowed. If not repaid sooner, the aggregate unpaid principal amount outstanding under this Note shall be paid in full, without presentment, grace, demand, or notice upon the earliest to occur of (a) fifteen (15) days after the closing of the sale of the residence of the undersigned located at 5431 Blackhawk Drive, Danville, California, and (b) December 31, 1999 (the "Maturity Date").

Should default be made in the payment of any amount due under this Note, the entire outstanding principal amount outstanding under this Note shall be immediately due and payable, without presentment, grace, demand, or notice. After default, interest shall accrue on all unpaid amounts under this Note at the highest rate then lawful in the State of Texas; provided, in no event shall interest on the debt evidenced by this Note exceed the maximum amount of nonusurious interest that may be contracted for, taken, charged or received under any applicable law.

Principal, and interest if any, shall be payable in lawful money of the United States of America. The undersigned agrees that the records of Kaiser Aluminum & Chemical Corporation as to the amount of principal outstanding and unpaid under this Note from time to time shall be deemed presumptively correct in the absence of manifest error.

If action is instituted on this Note, the undersigned shall pay to Kaiser Aluminum & Chemical Corporation such sums as a court of competent jurisdiction may fix as reasonable attorneys' fees and as costs. The loans evidenced by this Note were negotiated and consummated in the State of Texas, and it is agreed and understood that the legality, enforceability, and construction of this Note shall be governed by the laws of the State of Texas.

This Note restates in its entirety the Promissory Note, dated June 14, 1999, from the undersigned to Kaiser Aluminum & Chemical Corporation.

/s/ Raymond J. Milchovich

____

Raymond J. Milchovich

5

This schedule contains summary financial information extracted from the
consolidated financial statements of the Company for the six months ended
June 30, 1999, and is qualified in its entirety by reference to such
financial statements.

0000811596
KAISER ALUMINUM CORPORATION
1,000,000

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DEC-31-1999
JAN-01-1999
JUN-30-1999
26
0
278
6
525
955
2,007
918
3,046
543
963
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