KaiserTech Limited 1987 Annual Report

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

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Who We Are: KaiserTech Limited was formed on May 1, 1987, following stockholder approval of the reorganization of Kaiser Aluminum & Chemical Corporation's corporate structure into a holding company form of ownership. As a result, Kaiser Aluminum became the operating subsidiary of KaiserTech Limited, the new holding company, and owners of Kaiser Aluminum common stock automatically became owners of KaiserTech common stock. See Note 15 of the financial statements for more information about the reorganization.

KaiserTech Limited is one of the world's leading aluminum producers, operating plants in nine states and seven foreign countries. As a fully integrated producer, the company mines bauxite, the major aluminum-bearing ore; refines it into alumina, the intermediate material; and produces primary aluminum, most of which it manufactures into selected fabricated products that are sold to the beverage container, distributor, transportation, aerospace, construction, and consumer durables markets in the U.S. and abroad. During 1987, the company employed an average of about 12,500 persons, down significantly over the past five years due to asset sales, the discontinuation of various businesses, cost reduction programs, and decentralization.

"Discontinued operations" discussed in this report consist of agricultural chemicals, refractories, international trading, real estate, and industrial and specialty chemicals. Except for industrial and specialty chemicals, these businesses were sold between 1984 and 1987 as part of a major corporate restructuring program aimed at improving KaiserTech's financial performance, reducing debt, and enhancing stockholder values. The company in 1987 announced its intention to sell its industrial and specialty chemicals business, and expects to complete the sales of the components of that business during 1988. See Note 2 of the financial statements for more information on discontinued operations.

Pasman Succeeds Maier: James S. Pasman, Jr., succeeded Cornell C. Maier as president and chief executive officer of KaiserTech Limited on January 1, 1988, after having succeeded Mr. Maier as chairman and chief executive officer of KaiserTech's operating subsidiary, Kaiser Aluminum & Chemical Corporation, on June 26, 1987.

Mr. Pasman joined Kaiser Aluminum in May of 1987 after 13 years of service with Aluminum Company of America, the last three of which were as vice chairman and director. His Alcoa experience also included six years as chief financial officer.

Mr. Maier, who retired after more than 38 years with the company, served as Kaiser Aluminum's chief executive officer for more than 15 years. He took on the additional positions of president and chief executive officer of KaiserTech upon its formation. Mr. Maier continues as a member of the boards and executive committees of KaiserTech and Kaiser Aluminum, and serves as a consultant to both companies.

THE YEAR IN BRIEF

	1987	1986[1]
Net Sales	**$1,987,200,000**	$1,967,100,000
Loss from Continuing Operations	**$ (352,700,000)[2]**	$ (85,000,000)
Net Loss	**$ (362,000,000)[2]**	$ (39,800,000)
Per Common Share:		
Loss from Continuing Operations	**$ (7.90)[2]**	$ (1.91)
Net Loss	**$ (8.11)[2]**	$ (.89)
Debt-to-Capital Ratio[3]	**49.6%**	52.2%
Sales of Aluminum Products — Metric Tons	**773,515**	762,741
Property, Plant, and Equipment Additions	**$ 81,900,000**	$ 93,100,000

(1) Restated for discontinued industrial and specialty chemicals operations.

(2) Includes a $366,100,000 loss provision, both before and after taxes ($8.13 per share), relating to the restructuring of continuing operations. This consists principally of write-downs of the electrical products manufacturing business and idle and uneconomic primary aluminum-making capacity, provision for the loss upon disposition of oil and gas properties, and the restructuring of corporate staff.

(3) Total debt as a ratio of total debt, deferred income taxes, deferred income, minority interests, and stockholders' equity at year-end.

1987 AT A GLANCE

KaiserTech Limited was formed on May 1 following stockholder approval of the reorganization of Kaiser Aluminum & Chemical Corporation's corporate structure into a holding company form of ownership. (Note 15 of the financial statements contains greater detail.)

We took asset write-downs and loss provisions on continuing operations of $366.1 million. While this meant the company would report a large loss for the year, it helped build a firmer base for the future by eliminating uneconomic or obsolete assets.

Operating performance in 1987 improved to near breakeven from a loss of $94.2 million the previous year.

We reduced debt by $414.6 million to $940.0 million.

We sold various assets — including European aluminum operations, oil and gas, food service packaging — to become a more focused aluminum company, and announced plans to sell our chemicals business.

We cut headquarters staff and decentralized, forming six largely self-sufficient business units to streamline operations.

We adopted a niche marketing strategy to accentuate our strengths and improve profitability.

We are optimistic that KaiserTech's improved competitive ability will be maintained by successfully concluding negotiations now under way for a new labor contract with the United Steelworkers of America, which represents union employees at many of our production facilities.

The company's financial results will be aided in 1988 by our continued restructuring and decentralization. The entire cost of our headquarters staff reduction program, for example, was included in 1987's financial results, and the resultant savings are expected to reduce costs and improve cash flow by $12 million annually.

In addition to lowering costs, we believe our decentralization program is improving operations at all our production facilities by placing authority to make important decisions at the lowest reasonable level. For KaiserTech to succeed in the intensely competitive aluminum industry, managers and employees must operate their facilities as largely self-sufficient business units serving markets that best suit their particular capabilities. We have given our people the decision-making authority they need to operate in that management style, with a leaner corporate staff to provide the planning, analysis, control, and overall direction needed to make the reorganization work. We are confident of their success.

Through what has unquestionably been the most difficult period in the company's history, our employees have made many important sacrifices and remained committed to improving KaiserTech's long-term viability. Much of the progress they've made over the past several years in lowering costs and strengthening production efficiency was offset during that period by price declines. Now it appears that the company's sharpened focus on aluminum and on the segments of the aluminum business in which it can best compete, combined with the gains in efficiency achieved within our operations as well as the industry's improved fundamentals, will allow KaiserTech to more fully realize the benefit of those efforts.

We are deeply grateful to you, our stockholders, employees, and customers, for your support during this trying period, and we look forward to reporting to you throughout 1988 that meaningful additional progress is being made toward increased competitive ability, debt reduction, and sustained profitability.

Alan E. Clore
Chairman
KaiserTech Limited

James S. Pasman, Jr.
President and
Chief Executive Officer
KaiserTech Limited and
Chairman and Chief Executive Officer, Kaiser Aluminum & Chemical Corporation

A. Stephens Hutchcraft, Jr.
Vice President
KaiserTech Limited and
President and Chief Operating Officer, Kaiser Aluminum & Chemical Corporation

February 26, 1988

ALUMINUM INDUSTRY OVERVIEW

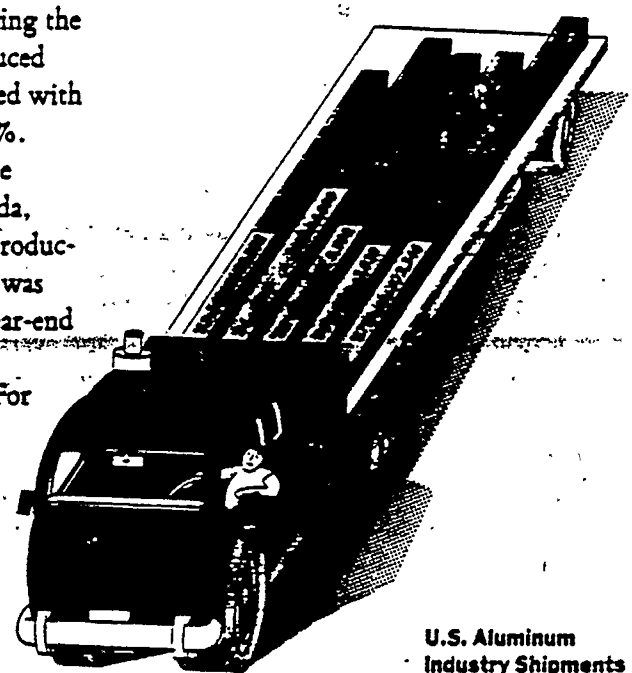
In terms of demand, shipments, and improved competitive ability, 1987 was the most successful year of the decade for the U.S. aluminum industry. Total U.S. producer shipments, favorably influenced by increases in real GNP and industrial production as well as a 38% surge in exports and an 8% dip in imports, moved up 8% from the 1986 level.

The rise in U.S. shipments, combined with an increase in foreign demand, provided an overall gain of 5% in 1987 western world aluminum consumption.

Compared with 1986, U.S. primary aluminum production during the year grew 10%. The industry's operating rate (annual tons produced divided by annual capacity) averaged 88% for all of 1987 compared with 80% in 1986. By year-end 1987, the operating rate was up to 98%.

Reflecting the reactivation of about 600,000 metric tons of idle capacity and the startup of 400,000 tons of new capacity in Canada, Australia, and elsewhere, the western world industry's primary production increased 5% in 1987. Its average operating rate for the year was 93%, up from 90% in the prior year, and the operating rate at year-end was 94%.

Prices for primary aluminum moved up very sharply in 1987. For instance, the Midwest U.S. market price rose from 53 cents per pound in early January to a high of 88 cents in both October and December.



U.S. Aluminum Industry Shipments and Primary Production
1983-1987
■ Total Shipments
■ Primary Production
In Thousands of Metric Tons

ALUMINUM OPERATIONS

In line with the industry trend, KaiserTech's shipments increased in 1987. The year-to-year increase was only 1%, however, because 1987's total did not include fourth quarter shipments from Kaiser Aluminium Europe (KAE), which was sold late in the year. Excluding KAE, KaiserTech's 1987 shipments increased by 6.5% over 1986. Because of better 1987 prices for primary aluminum, the percentage of the company's total shipments made in the form of ingot rose to 16% of the total from 10% in 1986.

KaiserTech's worldwide annual primary aluminum capacity at year-end 1987 was 690,000 metric tons, down 24% from the prior year's level because of the sale of KAE and its 72,000-ton Voerde, West Germany, smelter, and because of the writing off of idle and uneconomic U.S. capacity.

The company's primary metal production in 1987 was higher than in any year since 1981 and totaled 633,328 metric tons for an average operating rate of 85%. This compares with output of 577,861 tons or 64% of capacity in 1986. In December 1987, the company's worldwide primary metal production system was operating at 87% of overall capacity.

TO OUR STOCKHOLDERS, EMPLOYEES, AND CUSTOMERS:

The past year was one of major organizational change for the company. We had for some time been moving away from a centralized form of management toward one that was more decentralized. In 1987, driven by the belief and experience that the best decisions are those made closest to the plant floor and to the customer, we decentralized into six largely self-sufficient business units—raw materials, primary aluminum, sheet and plate, rod/bar/wire, forgings, and extrusions—with corporate staff providing the framework of overall strategy and direction. This action is making our businesses more entrepreneurial... more agile... more adept at managing change... and it is allowing us to downsize our headquarters staff to about 150 people, a decrease of approximately 55% from a year ago. At the same time, we have assembled a team experienced in planning and control to work with our business units and help ensure that performance goals are met.

The year was also one in which we made very substantial progress in reducing our debt, increasing our cash, and improving our results from operations.

The net result is that, by focusing our financial and managerial resources on facilities and product lines that offer significant competitive opportunities, we believe we have restructured KaiserTech Limited for a return to sustained profitability.

Mainly as a result of plant cost reduction programs and process improvements, savings in salaried and administrative expenses, and better shipment volume from ongoing businesses, KaiserTech's 1987 pre-tax operating loss from continuing operations (excluding the restructuring of operations) improved to $4.6 million from a loss of $94.2 million (excluding the write-down of oil and gas reserves) in 1986. Primary aluminum prices increased sharply in 1987 and thus helped operating results somewhat, but total realized fabricated products prices moved only moderately upward... and there was no net realized price improvement for beverage can stock, our highest-volume fabricated product.

For all of 1987, KaiserTech had a net loss of $362.0 million or $8.11 per common share. That includes, in continuing operations, loss provisions totaling $366.1 million from asset write-downs, and pre-tax net gains of $68.8 million from asset sales. It also includes an after-tax loss of $9.3 million (after $33.9 million of asset write-downs and loss provisions) from discontinued operations.

The company during the year sold assets that generated total proceeds of $263.5 million. They included Kaiser Aluminium Europe Incorporated, a wholly owned subsidiary engaged in continental European aluminum operations; the oil and gas exploration and production business; the food service packaging business; several fabricated products facilities; and miscellaneous real estate assets.

We have also reached agreements in principle to sell components of our chemicals business, including the Harshaw/Filtrol Partnership, FarBest Corporation, and facilities in Louisiana, Mississippi, and Utah. These sales should be completed in the first half of 1988. In addition, we continue to explore possible sales or joint ventures of some aluminum operations.

KaiserTech's consolidated debt was reduced by $414.6 million during the year to $940.0 million at year-end 1987, mainly with funds received from asset sales. A portion of the proceeds we expect to receive from sales of our chemicals business and other assets will be used to further reduce debt in 1988. Our goal is to lower debt to a level that can be satisfactorily serviced from continuing operations, and provide the base to finance future growth.

Western world aluminum supply and demand are expected to be generally in balance throughout 1988. Assuming this forecast proves correct, primary aluminum prices are likely to be at relatively high levels for the foreseeable future. KaiserTech's worldwide primary aluminum production business will operate at a higher percentage of overall capacity in 1988 than in the prior year, and total shipments are also expected to increase on a year-to-year basis (after excluding 1987 shipments by Kaiser Aluminium Europe). Most importantly, incoming orders remain strong, and price increases for fabricated products that took effect in late 1987 and early 1988 are significantly improving profit margins on the large majority of our shipments. Fabricated products price realizations are now nearing the peak previously achieved in 1984.

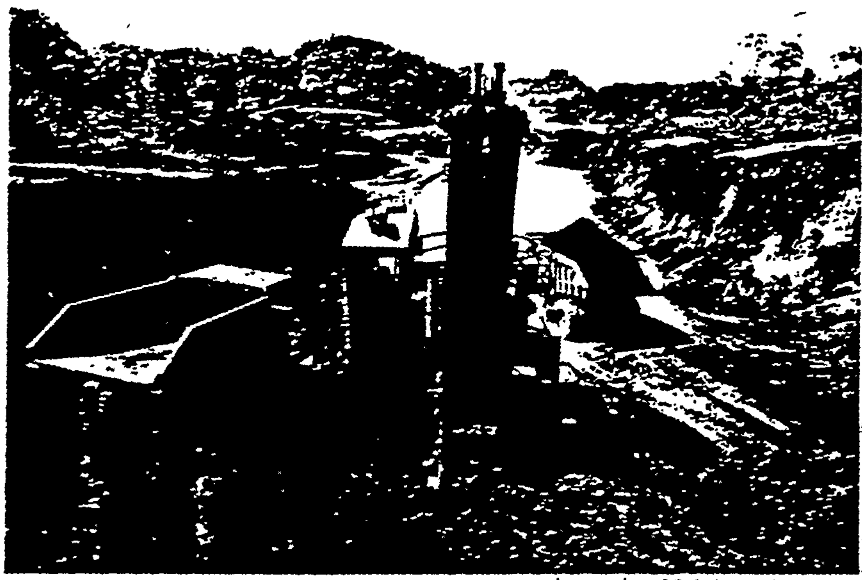
Among the company's greatest current strengths are its raw materials and primary aluminum production businesses, whose competitiveness has been considerably strengthened in recent years. Our Gramercy, Louisiana, alumina refinery—part of the raw materials business unit—has significantly increased its throughput, and most of our aluminum smelters have done an excellent job of lowering their labor, energy, and other production costs. We believe these parts of our total production system are now in a position to be economically viable at the bottom of normal aluminum industry cycles, and to earn at least a reasonable profit in any environment better than that.

Our two sheet and plate mills and our rod/bar/wire, forgings, and extrusions facilities have also improved their competitiveness, but further gains in operating efficiency are needed. The Trentwood rolling mill, which plays a key role in overall fabricated products profitability, in 1988 will benefit further from the $230 million modernization program carried out there over the past several years. This plant's production and shipments should continue their upward trend, and product mix is also expected to improve this year. We are committed to seeing that Trentwood's product quality becomes a benchmark in our industry.

...uminum operations are organized into six business units: raw materials, primary aluminum, sheet and plate, rod/bar/wire, fo-gings, and extrusions. A review of each of these activities follows.

Raw Materials — Bauxite and Alumina: The company's largest source of bauxite ore for refining into alumina is 49%-owned Kaiser Jamaica Bauxite Company. Mining operations there produced 3,600,594 metric tons in 1987 compared with 3,011,993 tons in 1986.

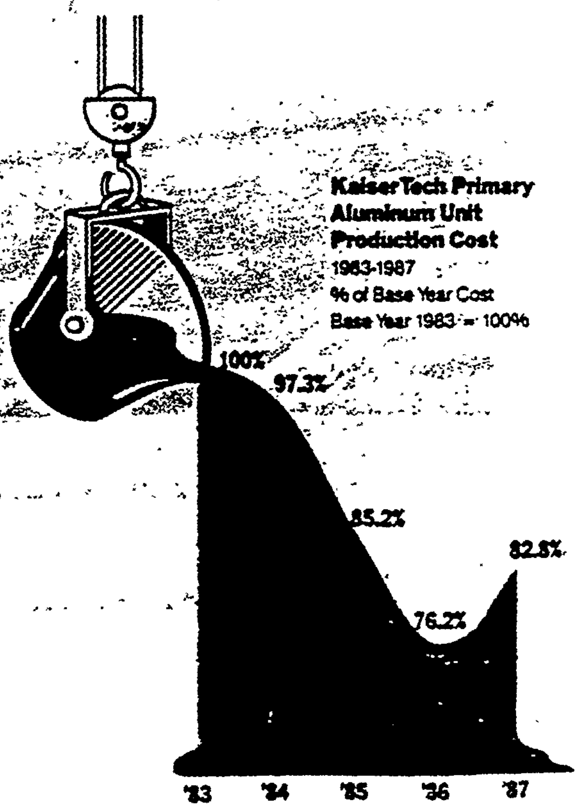
The company's alumina operations — with refineries at Gramercy, Louisiana, and 28.3%-owned Queensland Alumina Limited in Australia — benefited in 1987 from increases in both demand and prices as well as



This shovel is scooping bauxite from a mine high up in the mountains on Jamaica's north coast. Kaiser Jamaica Bauxite Company, which produced 3.6 million metric tons of bauxite in 1987, is the sole supplier of bauxite to the Gramercy, La., alumina plant. The mining operation employs 460 Jamaicans and takes special care in being highly sensitive to all environmental matters.

from improvements in process technology and plant throughput. The two facilities produced at better than rated capacity in 1987 and are expected to operate at a comparable level in 1988.

Because of the improving balance in world alumina supply and demand, management is exploring the possibility of restarting the Nain, Jamaica, refinery of 50%-owned Alumina Partners of Jamaica (Alpart). This facility has not operated since mid-1985 because of its relatively high production costs and an adequate supply of alumina from other sources. At year-end 1987, the company's investment in and advances to Alpart totaled $32.3 million, and its share of Alpart's debt obligation was $64.3 million.



Primary Aluminum: KaiserTech's worldwide primary aluminum produc-ion business set new high standards for operating efficiency in 1987, due o programs that have significantly improved employee involvement and roductivity, lowered energy and material consumption, eliminated aste, and increased output. These programs, carried out over the past veral years, have sharply reduced the business unit's cost structure and eakeven point, thus strengthening its ability to compete with newer, eign production facilities that generally have the advantage in energy l labor costs.

For the second consecutive year, output, cell efficiency, productivity, and cost records were established at several smelters. While the system's energy and alumina costs rose in 1987, other conversion costs dropped from the 1986 level.

The Mead and Tacoma, Washington, smelters operated for all of 1987 under a variable electric power rate formula adopted in the prior year by the Bonneville Power Administration (BPA). This formula, which ties the price of power to the price of primary metal and provides for maximum and minimum power prices, allows greater predictability of future power costs and increased competitiveness in times of low metal prices. Due to high metal prices, the power rate reached the maximum allowable price in the fourth quarter of 1987.

During 1987, BPA announced a new conservation/modernization program to encourage lower energy consumption. Under the program, which will be in effect for 10 to 12 years, BPA will pay aluminum producers a half cent for each kilowatt-hour saved. Energy consumption at Mead is expected to drop as much as 15% and at Tacoma by as much as 8% in the next three to five years as a result of capital spending projects that are now economically feasible because of this program. In 1988, the conservation/modernization payment to the company is expected to be about $1.8 million.

The Ravenswood, West Virginia, smelter buys energy under an arrangement that allows the supplier to recover, in periods of high metal prices, reductions in power costs that were in effect when the ingot price was below 62.5 cents per pound. Thus, in the second half of 1987, the facility began repaying to its utility the savings that were realized in 1986, and this requirement caused Ravenswood's overall power costs to rise during the year. Assuming primary prices remain at current levels, additional repayment of up to $6.5 million in previously realized savings may be made in 1988.

In 1987 a new self-management concept went into effect on Potline 3 at the Mead, Wash., smelter, coinciding with the reactivation of 65 aluminum-producing pots on that line. The team working on the line was given two weeks of special training in such subjects as problem solving, dealing with conflict, first aid, and Cottrel operation. Mechanized cell operator Vera Burgess, shown changing anodes in one of the cells on Line 3, and his co-workers have minimal supervision. The plant reports that Line 3 has superior production, metal purity, current efficiency, and safety. "Motivation is the key to the program's success," says Line 3 general foreman Wayne Rickard. "I've seen a new attitude out there. I've never seen anything like it before."

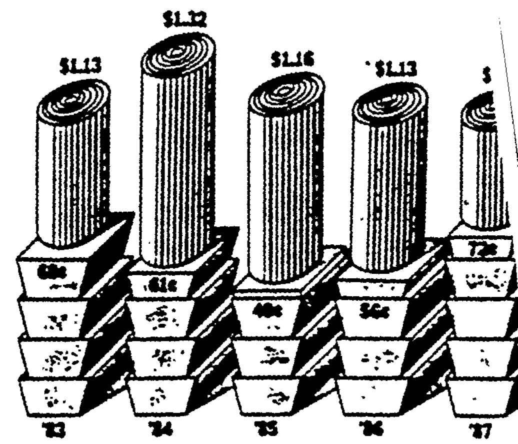
The 90%-owned Volta Aluminium Company Limited (Valco) smelter in Ghana operated at 74% of capacity in 1987, and its production is

.... were impaired in 1982 and ... down completely from late 1983 to early 1985, as a result of a widespread African drought that curtailed its hydroelectric power supply. Current water levels are adequate to support an operating rate of about 90% in 1988.

Employee commitment to more efficient operations has been and will continue to be a major factor in the primary aluminum business's greatly improved competitive ability. Management has increased employee involvement and cut layers of authority so that more decision-making responsibility has been moved closer to the operating level. It has also put in place a common-sense, minimum-risk capital investment policy which states that projects must be based on proven technology, can't disrupt existing operations, should pay off within one to two years, and must be planned and implemented with the involvement of hourly employees.

The success of these policies was demonstrated throughout the system in 1987, particularly at the Mead smelter. In the third quarter, Mead employees restarted a potline under a "self-management" plan they developed that included only minimal supervision. During the year, Mead employees also helped design and build a semi-automatic anode changing device that has improved the facility's operations, and they played a large role in developing a capital spending program now under way to modernize the plant's rodding room and thus lower operating costs, improve the plant environment, and facilitate housekeeping.

KaiserTech expects to further improve its competitive ability in primary aluminum production by continuing the employee involvement and cost control programs that have worked so successfully over the past several



Prices — Midwest U.S. Ingot Price and KaiserTech's Domestic Fabricated Products Price Realizations
1983-1987
Domestic fabricated products prices declined in 1987 from the 1986 level, and world prices rose only moderately.
▪ Fabricated Products Price
• Ingot Price
In Dollars per Pound

Production Capacities

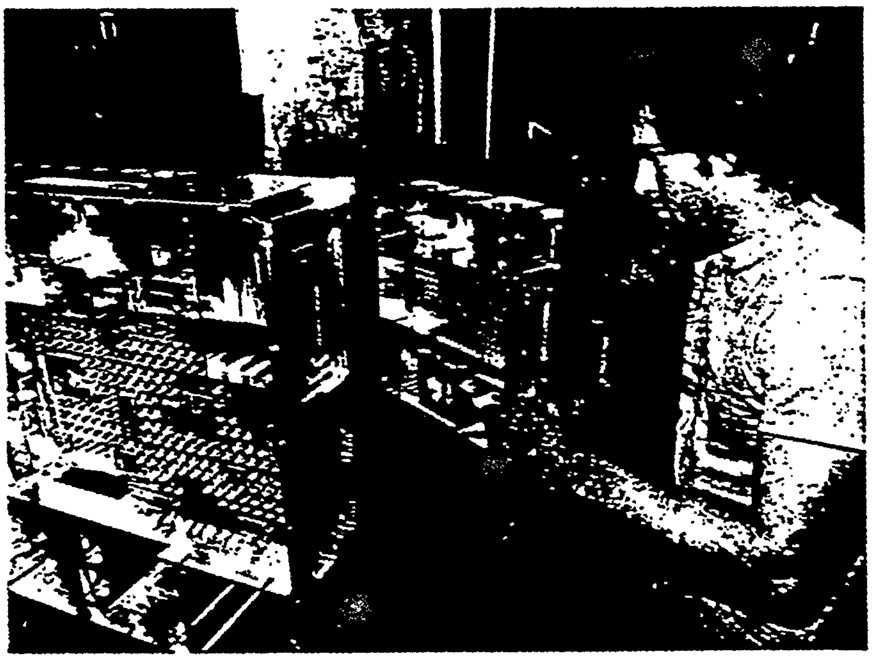
Year-End 1987 Totals	Annual Capacity Available to KaiserTech (Metric Tons)
Bauxite Mining	
Kaiser Jamaica Bauxite Company (Jamaica, 49% owned)	4,200,000
Alumina Partners of Jamaica (Jamaica, 50% owned)	1,356,000
World Total	5,556,000
Alumina Refining	
Gramercy, Louisiana	748,000
Alumina Partners of Jamaica (Jamaica, 50% owned)	590,000
Queensland Alumina (Australia, 28.3% owned)	774,000
World Total	2,112,000
Primary Aluminum	
Mead, Washington	200,000
Ravenswood, West Virginia	111,000
Tacoma, Washington	73,000
U.S. Total	384,000
Volta Aluminium (Ghana, 90% owned)	180,000
Anglesey Aluminium (Wales, U.K., 49% owned)	55,000
Boyne Smelters (Australia, 20% owned)	42,000
Aluminium Bahrain (Bahrain, 17% owned)	29,000
Overseas Total	306,000
World Total	690,000

years. In addition, new emphasis will be placed on primary products such as foundry ingot and extrusion billet.

Fabricated Products: During 1987, the company focused its fabricated products business—sheet and plate, rod/bar/wire, forgings, and extrusions—on market niches where it has especially strong production expertise, relatively low costs, superior quality, and a meaningful share of the overall market.

Fabricated products prices, which are heavily influenced by changes in the ingot price and usually follow these changes with delays of three to six months, moved only moderately higher, in total, during 1987. Prices for a wide variety of fabricated products increased in late 1987 and in the first quarter of 1988, significantly improving the company's anticipated realizations on the bulk of its aluminum shipments.

Sheet and Plate: Sheet and plate accounts for close to half of KaiserTech's business, and can stock, with approximately $440 million in annual sales, accounts for about half of that. In recent years, a very large portion of KaiserTech's resources has been aimed at improving the company's competitive ability in sheet and plate products—particularly body, lid, and tab stock for beverage cans. Sheet and plate products are sold to can producers as well as distributors, manufacturers, and fabricators in such industries as transportation and aerospace.



An employee at D & H Manufacturing in Santa Clara, Calif., examines a chassis for the U.S. Navy that was machined from a block of 6061 alloy aluminum plate. D & H, a pioneer in precision machining of metals, used a computer-operated, 4-axis milling machine to produce these parts. The aluminum plate used by D & H is cut to precise measurements by KaiserTech distributor Amalco Metals, Inc., of Union City, Calif.

Since 1983, more than $230 million has been invested to improve the production capacity, operating efficiency, and product quality of the Trentwood, Washington, rolling mill, the largest facility of its type in the western U.S. The benefits of this program include a 25% increase in capacity and a substantial reduction in the cost of converting primary metal to flat-rolled products.

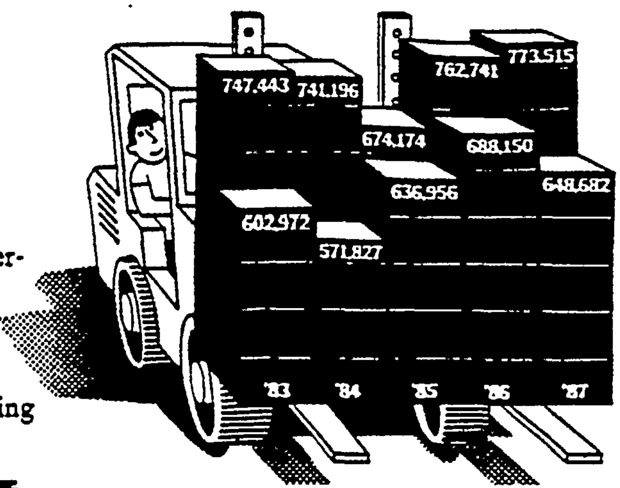
The installation of state-of-the-art manufacturing equipment and changes in operating methods carried out over the past several years at Trentwood have made the facility one of the world's highest-quality rolling mills. Its sheet and plate products are recognized by major customer groups as having superior gauge, flatness, shape control, and metallurgical properties.

Trentwood's production capabilities will be further strengthened in 1988 through the installation of new ingot scalping equipment and operating modifications that will allow the rolling of more—and larger—ingots with improved surface quality.

In addition, the board of directors approved plans to install a $29.5 million, high-speed line to coat wide coils at the facility. The new coating line is a critical element in Trentwood's overall marketing strategy because it accommodates the can industry's move to expand the production of can lids from wide coated coils. Scheduled for completion in late 1989, the new line and its related handling equipment will help ensure that Trentwood continues to produce a full range of highly competitive can stock materials and that it will be a major factor in wide lid stock—the fastest-growing segment of the total beverage container market.

In 1988, Trentwood management intends to capitalize on freight and service advantages provided by the facility's geographical location and expand sales of more profitable products to growing markets in the western U.S. and Asia. Also, new emphasis will be placed on providing plate, heat treat sheet and coil, and common alloy sheet and coil to the aerospace, transportation, and distributor markets.

Like Trentwood, KaiserTech's Ravenswood, West Virginia, rolling mill is a major supplier of aluminum sheet for can manufacturing. In addition, this facility is the industry's largest producer of brazing sheet for automotive heat exchangers, mainly radiators, heater cores, and air conditioner evaporators. Ravenswood's other principal products include heavy gauge plate for the aerospace industry and wide and heavy gauge



KaiserTech Total and Fabricated Products Shipments
1983-1987
▪ Total Shipments
▪ Fabricated Products Shipments
In Metric Tons

Mail delivery vehicles move along the assembly line at Grumman Corporation's Long Life Vehicle subsidiary plant at Montgomery, Pa. KaiserTech is supplying one-third of the sheet required by Grumman to build 99,150 of the all-aluminum-body trucks for the U.S. Postal Service. A new mail vehicle, complete with red, white, and blue stripes and Postal Service logo, rolls off Grumman's assembly line every 10 minutes. Grumman says the aluminum body is designed to last 24 years. KaiserTech expects to supply 2.5 million pounds of aluminum coil and sheet per year from the Ravenswood, W.Va., and Trentwood, Wash., plants.

common alloy coil used in truck trailer roofs and dump bodies, boats, and similar transportation applications.

Ravenswood's technical capabilities were demonstrated in 1987 when its employees and KaiserTech research and development professionals rolled the largest-ever metal matrix composite (MMC) sheet. The customer was an aerospace firm which has a contract with the U.S. Air Force to produce full-scale fighter aircraft tail sections for test purposes. MMCs—a combination of an aluminum powder alloy and a ceramic reinforcement—can achieve weight savings of 25% over conventional aluminum alloys in advanced high-performance aircraft. Ravenswood's demonstration of its commercial capabilities in MMCs could prove significant if testing leads to full-scale production.

Ravenswood expects to improve its operating efficiency in 1988 by implementing an improved order management system for its more commonly used products like heavy gauge common alloy coil. This program should allow the facility to strengthen its quality and service performance to major sectors of the aluminum market.

RBW, Forgings, Extrusions: The efficiency and product quality of KaiserTech's rod/bar/wire, forgings, and extrusions businesses have been greatly strengthened over the past several years through equipment modernizations and improvements in operating procedures. These businesses, which together account for about 16% of total annual sales, are carrying out their activities in a more entrepreneurial manner under the company's decentralization policy.

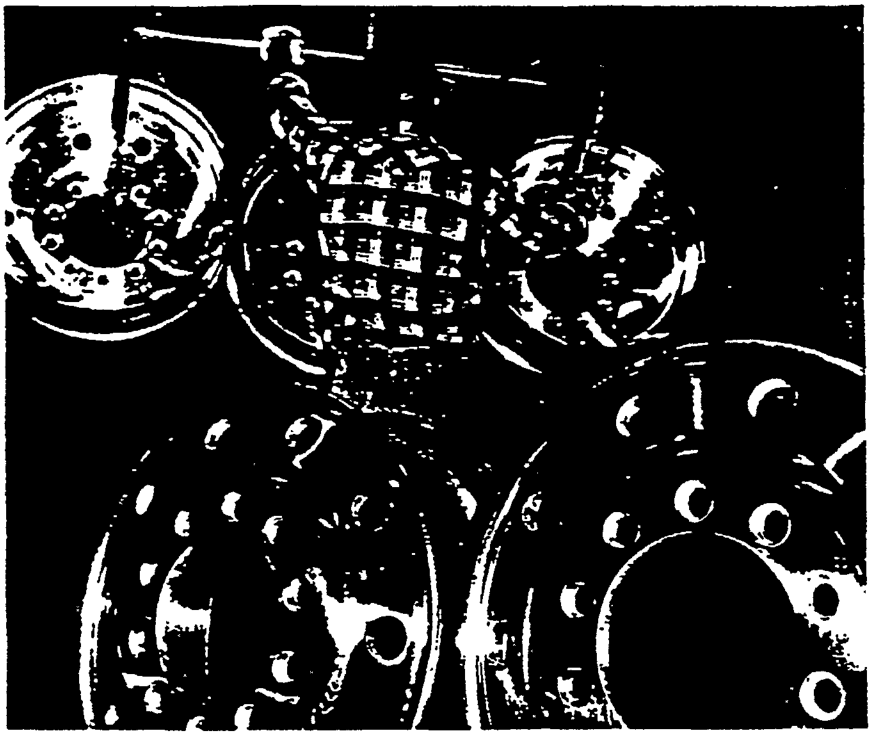
The company's Newark, Ohio, facility manufactures rod/bar/wire products as well as forging billet for a wide variety of markets including transportation, construction, military ordnance, and aerospace. A capital spending program to improve this plant's capacity to manufacture screw machine stock, as well as the quality of this product, is planned for 1988.

Forgings, which service the transportation, aerospace, and ordnance

Tiny aluminum clips, produced by the billions by Tipper Tie, Inc., at Apex, N.C., are packaged for shipment to food processors across the nation. The clips, made from 3/8-inch alloy re-draw rod supplied by KaiserTech's Newark, Ohio, plant, are familiar to shoppers who find them securing packages of sausage, poultry, cheese, and meats. Tipper Tie also manufactures the food packaging machines in which the clips are used.

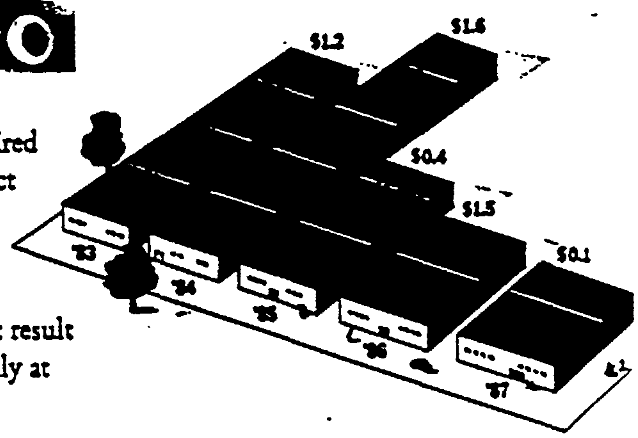
markets where a combination of strength, light weight, and durability is required, are produced by KaiserTech at Oxnard, California, and Erie, Pennsylvania. Forged aluminum truck wheels and hubs and structural components for aircraft and missiles are examples of the wide range of forgings products.

The company's extruded products are manufactured at plants in Los Angeles; Sherman, Texas; and Toronto, Canada, and are sold primarily to the transportation, architectural, distributor, and consumer durables markets. Both the Los Angeles and Sherman facilities operate three extrusion presses, and the Sherman plant is in the process of starting up a new, on-site remelt capability. Toronto has two presses and in late 1987 acquired a separate extrusion paint line as part of a program to expand product availabilities.



Shiny aluminum truck wheels near the end of the production line. The wheels, forged at KaiserTech's Erie, Pa., plant, are precision machined and polished, and marketed to nearly all of the major heavy-duty truck manufacturers.

Additions to Plant & Investments
1983-1987
• Investments
• Plant
In Millions of Dollars



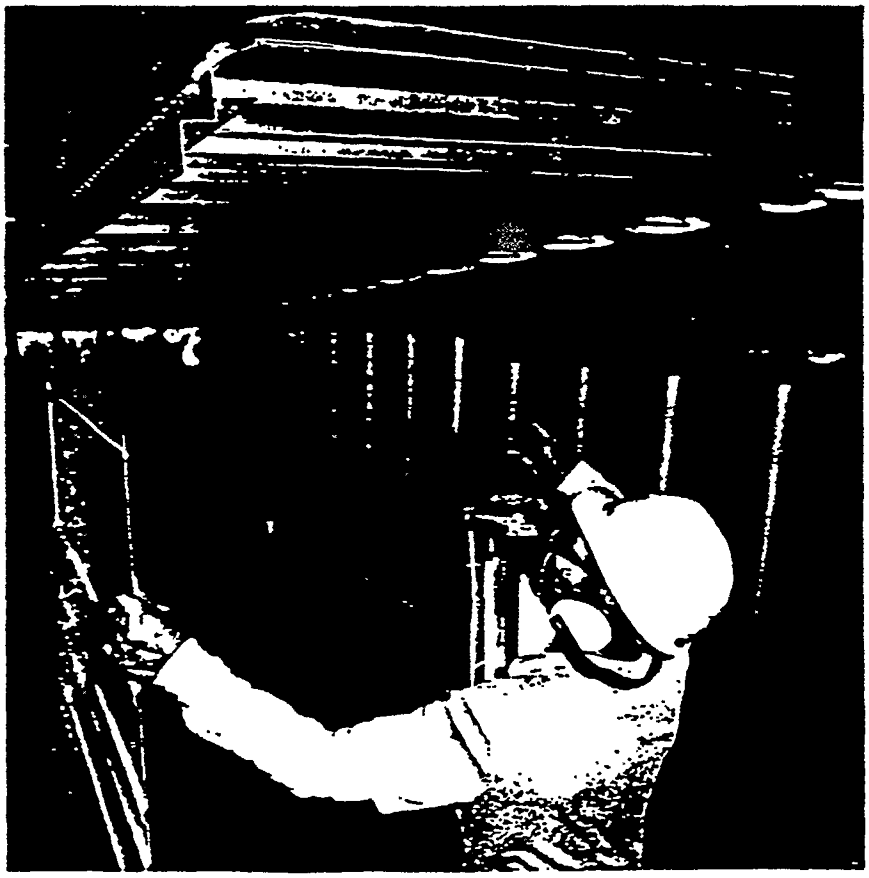
Research and Development: A significant number of the operating improvements recently carried out at KaiserTech's plants are a direct result of the company's research and development efforts, conducted mainly at the Center for Technology (CFT) in Pleasanton, California.

During 1987, CFT technology helped increase metal recovery and improve furnace operations at KaiserTech's rolling mills. Modifications in rolling processes and lubrication also allowed these facilities to achieve higher rolling speeds along with better shape control and surface appearance.

In addition, CFT personnel play a major role in several market-oriented teams that demonstrate the company's determination to provide customers with superior product quality. In the can stock business, for example, KaiserTech has assembled an interdisciplinary team that combines experience and expertise in R&D, production technology, and marketing. The team's principal task is to monitor and improve product performance and customer satisfaction. It identifies customers' technical requirements and works in tandem with KaiserTech and customer facilities to ensure that these requirements are met. Consistency in metallurgical properties, dimensional tolerances, and surface finish are key to success in this area because if aluminum sheet differs even slightly from specifications it may interrupt the can manufacturing process and thus compromise the efficiency of customer plants.

Longer term, the company's competitiveness in the can stock market depends on developing new alloys and fabrication procedures that will provide greater strength and better formability at thinner gauges and tighter gauge tolerances. Because of contributions in these areas made by CFT professionals, the company already has in place improved alloys for evolving can bottom and lid designs, allowing further gauge reductions. In addition, the team is engaged in efforts to develop the next generation of alloys, forming techniques, and can designs.

The R&D staff at mid-year began operating a new aluminum lithium casting station at CFT that can produce 12,000-pound rolling ingots as well as extrusion and forging billets. Dedicated solely to the production of aluminum lithium alloys, the station's design incorporates highly specialized, proprietary equipment. Alloys are being developed there for aircraft, aerospace, and defense applications where aluminum lithium's lightness, superior stiffness, and fatigue resistance can provide significant benefits.



Aluminum roof and sides are mated at Utility Trailer Manufacturing Company's plant at City of Industry, Calif. Utility uses about 3,500 pounds of aluminum — about 2,500 pounds of extrusions and 1,000 pounds of coil for sides and roofs — in a typical 48-foot van-type trailer. KaiserTech's Los Angeles extrusion plant supplies 10 to 15 different extruded shapes to three Utility plants in the U.S. Trentwood supplies coil for the sides, and Ravenswood the roof coil, in widths up to 102 inches.

FINANCIAL REVIEW

Financial Results: Loss provisions that included asset write-downs were a principal cause of the net losses incurred by the company in each of the past three years. Operating losses from aluminum activities were a major contributing factor in the net losses experienced in 1986 and 1985, but were not significant in 1987 (excluding the restructuring of operations).

The company had a net loss in 1987 of $362.0 million or $8.11 per common share, including a net loss of $9.3 million from discontinued operations. Results from continuing operations included loss provisions from write-downs that totaled $366.1 million, principally for write-downs of the company's electrical products manufacturing business and idle and uneconomic primary aluminum-making capacity; a provision for the loss on the subsequent sale of oil and gas properties; and a reduction in corporate staff. In addition, the year's financial results included pre-tax gains of $68.8 million from the sale of Kaiser Aluminium Europe Incorporated, a wholly owned subsidiary engaged in continental European aluminum operations, and the sale of the company's food service packaging business.

KaiserTech's 1987 operating loss of $4.6 million (excluding the $366.1 million restructuring provision and the $68.8 million gain from asset sales) was substantially lower than in the prior two years due mainly to the effects of plant cost reduction programs and process improvements, savings in administrative and overhead expenses, and better shipment volume from ongoing operations. Primary aluminum prices increased sharply in 1987 and benefited operating results somewhat, but realizations for fabricated products, which make up the bulk of the company's shipments, rose only modestly, in total, from the 1986 level.

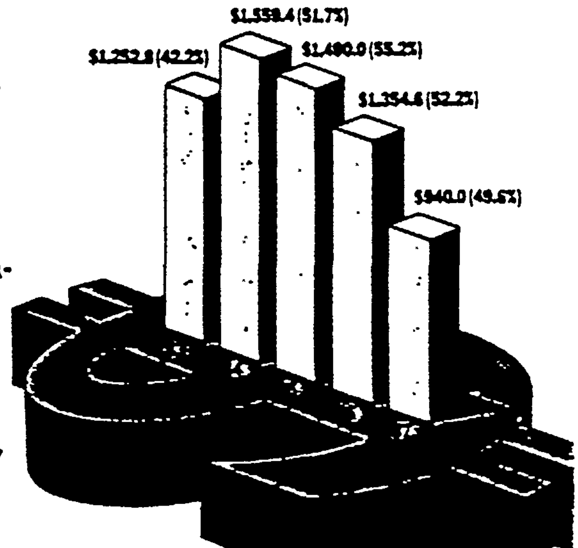
The company's 1987 tax provision for continuing and discontinued operations, most of which was related to profitable foreign activities, was $47.0 million.

KaiserTech's net loss in 1986 was $39.8 million or $.89 per common share. These results included, in continuing operations, a pre-tax loss of $59.4 million from the write-down of oil and gas reserves that have since been sold, a pre-tax gain of $16.9 million from the sale of part of the company's interest in Anglesey Aluminium Limited, and a pre-tax gain of $19.5 million from cancellation of a long-term natural gas supply contract. They also included income from discontinued operations of $45.2 million, primarily from the disposition of the company's real estate business, adoption of certain provisions of Financial Accounting Standards 87 and 88 relating to employers' accounting for defined benefit pension plans, and cancellation of the gas supply contract.

KaiserTech's tax provision for continuing and discontinued operations in 1986 was $17.0 million.

On an after-tax basis, discontinued operations and nonoperating items, net of the write-down of oil and gas reserves, improved the company's 1986 financial results by $28.8 million or $.65 per share.

KaiserTech Debt and Debt-to-Capital Ratio
1983-1987
Debt in Millions of Dollars
Debt-to-Capital Ratio as %



(excluding the write-down of oil and gas reserves) in 1986 and $153.0 million in 1985 were principally caused by low realized prices that declined 3% in 1986 and 12% in 1985 from prior-year levels. Fabricated products capacity and sales volume were significantly impaired in 1985 during the installation and startup phase of new equipment and operating methods at the Trentwood rolling mill.

The company's net loss in 1985 totaled $190.3 million or $4.33 per common share. Of this, $124.2 million or $2.83 per share was due to asset write-downs and a loss on disposition of the company's international trading business. Results for 1985 included net income from discontinued operations of $11.8 million or $.27 per share, as well as a tax credit from continuing and discontinued operations of $152.7 million.

At year-end 1987, the company had net operating loss carryforwards for tax purposes of $579.7 million. This total will be reduced over a period of four years by the unamortized amount of $129.5 million relating to the 1985 change in the method of accounting for inventories. In addition, the company has $64.4 million in investment tax credit carryforwards which is net of a 35% reduction required by the 1986 Tax Reform Act. The benefits of net loss carryforwards through 1986 have reduced deferred taxes in the financial statements. The company was not able to recognize the benefits of net loss carryforwards in 1987 because recovery is not assured during the carryforward period.

In all three years, the charges to operations for depreciation represent the allocation of historical costs incurred in prior years, and are less than if depreciation were based on the current cost of productive capacity.

Capital Spending: Improving the competitive ability of KaiserTech's aluminum fabricating network—particularly the Trentwood and Ravenswood rolling mills—has been the major focus of capital spending programs carried out over the past three years. Approximately 63% of the $297.7 million in capital expenditures for continuing operations made during this period has been invested to maintain or strengthen the efficiency of production processes, and 6% was spent for environmental control at domestic aluminum plants. The remaining 31% of capital expenditures since the beginning of 1985 was spent for oil and gas exploration and development and by Kaiser Aluminium Europe, both of which were sold in 1987.

KaiserTech's total consolidated capital expenditures for continuing operations were reduced to $82.0 million in 1987 from spending of $94.6 million in 1986 and $121.1 million in 1985 when expenditures for the Trentwood modernization were relatively high.

In 1988, the corporation plans to spend close to $150.0 million, up significantly from 1987. About half of the increased amount will be spent to improve existing facilities, and the other half will be spent to expand the company's capabilities with such projects as the wide coating line at Trentwood.

Financial Position: KaiserTech paid down its total consolidated debt by $414.6 million during 1987 to a total of $940.0 million at year-end, mainly with funds received from asset sales. Total debt at year-end included $120.3 million in First Mortgage Bonds; $689.4 million outstanding under a 1986 credit agreement with lending banks; and $130.3 million in other debt and lease obligations.

The credit agreement with lending banks includes a term loan that matures at year-end 1992 and a $165.0 million revolving credit facility that expires at year-end 1989. No borrowings were outstanding under the revolving credit facility at the end of 1987.

Management intends to lower the company's debt to a level that can be satisfactorily serviced from continuing operations, and provide the base to finance future growth. Additional progress toward this goal is anticipated in 1988 through the application of a portion of the funds expected to be received from the sale of chemicals activities as well as cash flow generated from continuing operations. In this regard, the company acquired Chevron Corporation's 50% share of the Harshaw/Filtrol Partnership during 1987 to facilitate the sale of the entire partnership in connection with the sale of the industrial and specialty chemicals business. (See Note 2 of the financial statements.)

The company in the past has undertaken various offshore raw material joint ventures on a project-financing basis. At year-end 1987, its share of the debt obligations of affiliates for which it is indirectly responsible through tolling agreements amounted to $281.1 million. The comparable amount was $305.7 million at the end of 1986 and $329.0 million at the end of 1985.

During 1987, 1986, and 1985, the company charged to compensation cost $11.8 million, $9.2 million, and $8.9 million for issuance of two series of Kaiser Aluminum preference stock. These shares have been contributed to certain employee stock ownership plans established for the members of the United Steelworkers of America and certain other employees to compensate for a reduction in wages and certain benefits. During 1987, the company purchased all the shares of another series of preference stock from certain employee benefit plans for $36.4 million.

The value of common stock issued during 1987 totaled $9.1 million, primarily from preferred dividends paid in common stock and the exercise of options.

The company's book value per common share at December 31, 1987, 1986, and 1985, was $14.92, $24.00, and $24.39 respectively. The decline in 1987 reflects primarily the restructuring of operations described earlier.

Dividends: KaiserTech Limited during 1987 paid cash dividends of $3.2 million and stock dividends of approximately 227,000 common shares (discussed above) on its $1.53 cumulative convertible 1987 Series preferred stock. In addition, the company's wholly owned subsidiary, Kaiser Aluminum & Chemical Corporation, paid cash dividends of $3.3 million (classified in minority interests) to holders of various series of preference stock.

No common stock dividends were paid in 1987 or 1986. Preference stockholders of Kaiser Aluminum & Chemical Corporation were paid dividends of $3.7 million in 1986 (also classified in minority interests). In 1985, when the board of directors voted to eliminate the $.15 quarterly common stock dividend in the second quarter, common dividends were $6.5 million and preference dividends were $3.8 million (also classified in minority interests) for an annual total of $10.3 million.

SUMMARY OF REVENUES AND INCOME[1]

(millions of dollars)	1987	1986	1985	1984	1983
Revenues:					
Net Sales—Aluminum					
Primary	**$ 191.0**	$ 93.3	$ 44.3	$ 219.4	$ 207.1
Fabricated	**1,679.8**	1,765.4	1,608.0	1,629.3	1,482.5
Other	**116.4**	108.4	121.7	87.0	45.5
Total Net Sales	**1,987.2**	1,967.1	1,774.0	1,935.7	1,735.1
Other	**97.5**[2]	68.7[3]	62.3	32.4	81.7[4]
Total Revenues	**$2,084.7**	$2,035.8	$1,836.3	$1,968.1	$1,816.8
Loss from Continuing Operations Before Income Taxes and Minority Interests	**$ (301.9)**[5]	$ (120.9)[6]	$ (364.0)[7]	$ (212.2)	$ (185.4)[4]
Provision (Credit) for Income Taxes	**44.5**	(43.0)	(165.7)	(150.0)	(118.1)
Loss from Continuing Operations Before Minority Interests	**(346.4)**	(77.9)	(198.3)	(62.2)	(67.3)
Minority Interests	**(6.3)**	(7.1)	(3.8)	(1.4)	(.7)
Loss from Continuing Operations	**(352.7)**	(85.0)	(202.1)	(63.6)	(68.0)
Discontinued Operations—Net of Income Taxes:[8]					
Income from Operations	**13.8**	26.1[3]	16.8[7]	25.5	17.1
Income (Loss) on Dispositions	**(23.1)**[9]	19.1	(5.0)	(60.7)	
Income (Loss) from Discontinued Operations	**(9.3)**	45.2	11.8	(35.2)	17.1
Net Loss	**$ (362.0)**	$ (39.8)	$ (190.3)	$ (98.8)	$ (50.9)

(1) Years prior to 1987 restated for discontinued industrial and specialty chemicals operations.

(2) Includes gains of $16.1 from the sale of the food service packaging business and $52.7 from the sale of Kaiser Aluminium Europe Incorporated.

(3) Includes a gain of $20.2 from adoption of Financial Accounting Standards (FAS) Nos. 87 and 88 relating to employers' accounting for pension plans, $1.7 in other revenues and $18.5 in discontinued operations. Also includes $32.5 from cancellation of a long-term gas supply contract, $19.5 in other revenues and $13.0 in discontinued operations.

(4) Other revenues include gains of $49.3 from the renegotiation of a natural gas supply contract and a rebate of energy charges at the Chalmette reduction plant. Loss from Continuing Operations Before Income Taxes and Minority Interests includes $36.2 from closure and write-downs of certain facilities and provision for an unfavorable arbitration award.

(5) Includes a loss provision of $366.1 for restructuring of operations consisting principally of write-downs of the electrical products manufacturing business and idle and uneconomic primary aluminum-making capacity, and provision for the loss upon disposition of oil and gas properties.

(6) Includes a write-down of oil and gas reserves of $59.4.

(7) Includes write-downs of the Baton Rouge, Louisiana, alumina refinery, as well as several smaller assets, totaling $211.0 and $9.8 in other costs and expenses and income from discontinued operations, respectively.

(8) Discontinued operations consist of the agricultural chemicals, refractories, trading, real estate, and industrial and specialty chemicals divisions.

(9) Includes a loss provision of $33.9 related to certain operations and businesses that were discontinued in recent years.

CONSOLIDATED BALANCE SHEETS

December 31, 1987 and 1986 (millions of dollars)	*1987*	*1986*
ASSETS		
Current Assets:		
Cash	$ 118.7	$ 93.8
Receivables:		
Trade (less allowance for doubtful receivables: $7.2 in 1987 and $4.0 in 1986)	230.1	230.4
Other	96.7	112.3
Inventories	439.0	602.1
Prepaid expenses	21.8	17.4
Current assets of discontinued operations—net	44.6	60.0
Total current assets	950.9	1,116.0
Investments and Advances—related parties	311.2	289.9
Property, Plant, and Equipment—net	858.2	1,354.8
Noncurrent Assets of Discontinued Operations—net	359.1	295.9
Other Assets	112.5	139.7
Total	$2,591.9	$3,196.3
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	$ 137.4	$ 127.0
Accrued wages, interest, and other liabilities	193.4	217.7
Income taxes payable	33.5	42.7
Payable to affiliates	176.4	108.0
Notes payable		26.5
Long-term debt—current portion	52.9	143.2
Total current liabilities	593.6	665.1
Long-Term Liabilities	156.8	108.3
Long-Term Debt	887.1	1,184.9
Deferred Income Taxes	42.7	47.6
Deferred Income	45.7	47.9
Minority Interests:		
Subsidiary redeemable preference stock (aggregate liquidation value of $129.7 at December 31, 1987)	38.9	24.1
Subsidiary preference stocks—cumulative and convertible (aggregate liquidation value of $11.2 at December 31, 1987)	11.2	42.6
Total minority interests	50.1	66.7
Stockholders' Equity:		
Preferred stock—cumulative and convertible, par value $1, stated value $17, authorized 10,000,000 shares, issued 8,235,294 shares (aggregate liquidation value of $140.0 at December 31, 1987)	8.2	
Common stock, 33-1/3 cents par, authorized 100,000,000 shares; issued: 45,309,470 shares in 1987 and 44,823,761 shares in 1986	15.1	14.9
Additional capital	416.9	295.[illegible]
Currency translation adjustment	7.0	27.[illegible]
Retained earnings	368.7	738.[illegible]
Total stockholders' equity	815.9	1,075.[illegible]
Total	$2,591.9	$3,196.[illegible]

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

STATEMENTS OF CONSOLIDATED INCOME

For the Years Ended December 31, 1987, 1986, and 1985 (millions of dollars except share amounts)	*1987*	*1986*	*1985*
Revenues:			
Net sales	**$1,987.2**	$1,967.1	$1,774.0
Other	**97.5**	68.7	62.3
Total revenues	**2,084.7**	2,035.8	1,836.3
Costs and Expenses:			
Cost of products sold	**1,691.2**	1,715.2	1,624.7
Depreciation	**88.7**	106.6	101.2
Selling, administrative, research and development, and general	**119.7**	128.5	115.0
Interest	**106.0**	127.5	122.8
Other	**14.9**	78.9	236.6
Restructuring of operations	**366.1**		
Total costs and expenses	**2,386.6**	2,156.7	2,200.3
Loss from Continuing Operations Before Income Taxes and Minority Interests	**(301.9)**	(120.9)	(364.0)
Provision (Credit) for Income Taxes	**44.5**	(43.0)	(165.7)
Loss from Continuing Operations Before Minority Interests	**(346.4)**	(77.9)	(198.3)
Minority Interests	**(6.3)**	(7.1)	(3.8)
Loss from Continuing Operations	**(352.7)**	(85.0)	(202.1)
Discontinued Operations—net of income taxes:			
Income from operations	**13.8**	26.1	16.8
Income (loss) on dispositions	**(23.1)**	19.1	(5.0)
Income (Loss) from Discontinued Operations	**(9.3)**	45.2	11.8
Net Loss	**$ (362.0)**	$ (39.8)	$ (190.3)
Per Common Share:			
Loss from continuing operations	**$ (7.90)**	$ (1.91)	$ (4.60)
Net loss	**(8.11)**	(.89)	(4.33)

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

For the Years Ended December 31, 1987, 1986, and 1985 (millions of dollars)	*1987*	*1986*	*19*
Resources Were Provided By:			
Continuing operations:			
Loss from continuing operations	**$(352.7)**	$ (85.0)	$(202.
Expenses (income) not involving funds:			
Depreciation	**88.7**	106.6	101.
Deferred income taxes	**(.7)**	(37.6)	(88.
Equity in undistributed earnings of companies not consolidated	**(17.2)**	1.9	12.
Redeemable preference stock	**14.8**	12.6	8.
Net loss on asset dispositions and write-downs	**280.1**	40.8	195.
Other			(20.
Provided by continuing operations	**13.0**	39.3	6.
Long-term borrowings	**56.0**	108.0	96.
Extension of long-term borrowings		120.0	
Capital stock issued (net of expenses)	**136.5**	8.2	7.
Pension liabilities from restructuring	**39.5**		
Proceeds from disposition of property and investments	**220.6**	152.5	10.
Early collection of long-term note		30.0	
Other	**13.4**	(80.1)	2.
Total	**$ 479.0**	$377.9	$ 123.2
Resources Were Used For:			
Property, plant, and equipment	**$ 81.9**	$ 93.1	$ 120.7
Reduction of long-term debt	**353.8**	279.2	81.9
Discontinued operations—net	**72.5**	(24.4)	(17.3
Capital stock of subsidiaries purchased from (contributed to) retirement plans	**36.4**	14.7	(13.0
Dividends	**7.9**		6.5
Currency translation adjustment	**20.1**	(30.5)	(29.0
Deferred financing costs		11.6	
Increase (decrease) in working capital	**(93.6)**	34.2	(26.6
Total	**$ 479.0**	$377.9	$ 123.2
Increase (Decrease) in Working Capital—By Component:			
Cash	**$ 24.9**	$ (14.3)	$ 71.5
Receivables	**(15.9)**	48.7	(65.7)
Inventories	**(163.1)**	.2	(47.9)
Prepaid expenses	**4.4**	5.3	3.3
Current assets of discontinued operations—net	**(15.4)**	(27.8)	(216.9)
Accounts payable and accrued liabilities	**13.9**	(38.6)	73.9
Income taxes payable	**9.2**	(15.3)	80.9
Payable to affiliates	**(68.4)**	(8.2)	(9.2)
Notes payable	**26.5**	65.8	165.5
Long-term debt—current portion	**90.3**	18.4	(82.0)
Total	**$ (93.6)**	$ 34.2	$ (26.6)

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

NOTES TO FINANCIAL STATEMENTS

(millions of dollars, except share amounts)

1. Summary of Significant Accounting Policies

Reorganization: As discussed in Note 15, on May 1, 1987, Kaiser Aluminum & Chemical Corporation ("Kaiser Aluminum") was reorganized into the holding company form of ownership with KaiserTech Limited ("KaiserTech" or "the company"), a newly formed Delaware corporation, becoming the holding company for Kaiser Aluminum and the common stockholders of Kaiser Aluminum becoming the common stockholders of KaiserTech. The accompanying financial statements of KaiserTech give effect to the reorganization as if KaiserTech had always been Kaiser Aluminum's immediate parent. Accordingly, KaiserTech's financial statements are substantially identical to Kaiser Aluminum's financial statements for periods prior to the reorganization, except that Kaiser Aluminum's outstanding preference stocks are classified as minority interests in the consolidated balance sheets and the dividend and accretion requirements of such stocks are shown as minority interests in the statements of consolidated income.

Principles of Consolidation: The consolidated financial statements include the statements of the company and its wholly owned subsidiaries. Investments in subsidiaries not consolidated, joint ventures, and 20% or more owned companies are accounted for by the equity method. Intercompany items and transactions are eliminated.

Foreign Currency Translation: The company translates the assets and liabilities of certain international companies whose functional currencies are their local currencies using current rates of exchange. The resulting aggregate translation adjustments are reported as a component of stockholders' equity. The results of operations are translated at average exchange rates for the period. Gains and losses on forward contracts or other foreign currency transactions except those hedging identifiable foreign currency commitments are included in income.

Inventory Valuation: Substantially all inventories are stated at first-in, first-out (FIFO) cost, not in excess of market. Other inventories, principally supplies and other low-value items, are stated at the lower of average cost or market. Inventory costs consist of material, labor, and manufacturing overhead including depreciation. Finished goods, work in process, and raw materials are not shown separately because they are sold at various stages of processing.

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

Land improvements	25 years
Buildings	45 years
Machinery and equipment	10 to 22 years

The cost less salvage of retired property, plant, and equipment is charged to related accumulated depreciation. Amortization of capital leases is included with depreciation expense for property, plant, and equipment.

Income Taxes: Income taxes include provisions for timing differences between income determined for financial reporting and for income tax purposes. Income taxes payable includes deferred amounts related to current assets and liabilities, and other deferred amounts where the timing difference is expected to reverse during the current year. Investment tax credits are recognized as reductions of the income tax provision in the year the properties are placed in service.

Retirement Plans: The company adopted the provisions of Financial Accounting Standards (FAS) Nos. 87 and 88, relating to employers' accounting for pension plans, effective January 1, 1986, except for the deferral until 1989 of the provisions which would recognize certain accumulated pension benefit obligations and the related intangible asset in the company's Consolidated Balance Sheet, and apply these standards to foreign plans. The current costs of principal domestic retirement plans are funded as accrued (see Note 11). Prior-service costs are funded and charged to operations over periods ranging from 10 to 30 years.

Statement of Changes in Consolidated Financial Position: In 1988, the company plans to adopt the provisions of FAS No. 95, which requires a statement of cash flows, in place of a statement of changes in consolidated financial position which the company now prepares on a working capital basis.

2. Discontinued Operations

Discontinued operations consist of the agricultural chemicals, refractories, trading, real estate, and industrial and specialty chemicals divisions. Results of discontinued operations were as follows:

	1987	*1986*	*1985*
Revenues (includes equity earnings of real estate and industrial and specialty chemicals)	$239.4	$310.6	$983.5
Costs and expenses	223.1	259.9	949.2
Income before tax	16.3	50.7	34.3
Provision for income taxes	2.5	24.6	17.5
Income from discontinued operations	$ 13.8	$ 26.1	$ 16.8

The net current and noncurrent assets of discontinued operations have been reclassified to remove them from their historic classifications and to separately identify them at the lower of their book or estimated realizable value. The following is the composition:

	December 31,	
	1987	*1986*
Current assets—net:		
Trade receivables—net	$ 33.1	$ 33.1
Other receivables	4.1	5.8
Inventories	32.8	42.4
Current liabilities	(23.0)	(24.2)
Other—net	(2.4)	2.9
Total	$ 44.6	$ 60.0
Noncurrent assets—net:		
Investments and advances	$235.2	$164.6
Property, plant, and equipment—net	128.4	129.1
Other—net	(4.5)	2.2
Total	$359.1	$295.9

In the third quarter of 1987, KaiserTech began implementation of a plan to sell the industrial and specialty chemicals division, including the 50%-owned Harshaw Filtrol Partnership ("Harshaw/Filtrol"). On September 1, 1987, KaiserTech purchased the other partner's 50% share of Harshaw/Filtrol in order to facilitate the sale of the industrial and specialty chemicals operations. The company does not expect to incur a loss from the sale of these operations. Prior-period financial statements have been restated to report industrial and specialty chemical operations, including Harshaw/Filtrol, in income (loss) from discontinued operations. In December 1987, the company agreed in principle to sell Harshaw/Filtrol for approximately $264.0, with no assumption of Harshaw Filtrol long-term debt by the buyer.

During 1987, the company recorded additional write-downs of $33.9 related to certain operations and businesses that were discontinued in recent years.

On December 23, 1986, Kaiser Aluminum completed the sale of Kaiser Development Company (KDC), at a purchase price based upon the financial position of KDC at November 30, 1986. Kaiser Hawaii Kai Development Company (KHKDC), the principal remaining real estate asset, is included in noncurrent assets of discontinued operations—net at December 31, 1987 and 1986. The buyer of KDC has an arrangement with Kaiser Aluminum to manage the operations of KHKDC and has an option to purchase the stock of KHKDC.

On July 1, 1985, Kaiser Aluminum implemented a plan to sell, and subsequently sold, substantially all the net assets of the trading division.

The pre-tax gain of $54.5 ($19.1 after-tax) on the sale of real estate was recorded as discontinued operations in December 1986. The 1986 provision for income taxes for discontinued operations (substantially all deferred) primarily offsets the tax benefits of the net operating losses generated by 1986 continuing operations. Estimated pre-tax losses of $9.5 were recognized ($5.0 after-tax) for trading in 1985 to reflect the anticipated losses on sale and the estimated losses from operations until disposition.

Summary Harshaw/Filtrol financial information as of December 31, 1987 and 1986, and for the years ended

December 31, 1987, 1986, and 1985, follows:

Harshaw/Filtrol Partnership Summary Financial Position	December 31, 1987	December 31, 1986
Current assets	$127.9	$114.3
Property, plant, and equipment—net	129.1	120.9
Other assets	34.9	37.4
Total assets	$291.9	$272.6
Current liabilities	$ 47.2	$ 34.3
Long-term debt	52.3	55.4
Partners' equity	192.4	182.9
Total liabilities and partners' equity	$291.9	$272.6
Company's investment in partnership (reclassified to discontinued operations)	$152.9	$ 79.9

Summary of Operations	1987	1986	1985
Revenues	$302.4	$264.0	$259.9
Costs and expenses	288.8	253.8	264.5
Provision for income taxes	4.1	4.3	3.2
Net income (loss)	$ 9.5	$ 5.9	$ (7.8)
Company's equity in earnings (loss) (reclassified to discontinued operations)	$ 7.3	$ 3.0	$ (4.2)

3. Other Revenues and Expenses and Restructuring of Operations

Other revenues in 1987 include gains of $16.1 from the sale of the food service packaging business and $52.7 from the sale of Kaiser Aluminium Europe Incorporated, and in 1986 include gains of $19.5 from the cancellation of a long-term gas supply contract and $16.9 from the sale of part of the company's interest in Anglesey Aluminium Limited (Anglesey).

Restructuring of operations costs and expenses in 1987 include a loss provision of $366.1 consisting principally of write-downs of the electrical products manufacturing business; idle and uneconomic primary aluminum-making capacity, including the remainder of the Chalmette, Louisiana, smelter; and a provision for the loss upon disposition of oil and gas properties.

Other costs and expenses in 1986 and 1985 include $59.4 from the write-down of oil and gas reserves, and $211.0 from a write-down of the Baton Rouge, Louisiana, alumina refinery as well as several smaller assets, respectively.

4. Investments and Advances—Related Parties

Investments are principally accounted for by the equity method. Consolidated retained earnings includes undistributed earnings of all companies accounted for by the equity method of $232.5 and $199.6 at December 31, 1987 and 1986. Included in the December 31, 1987, amount is $92.6 from 50% or less owned companies.

Summary combined financial information is provided below for investees within aluminum operations, most of which supply and process raw materials primarily on a toll basis for their participants. The company's equity earnings (losses) before income taxes of such toll operations included in cost of products sold were $80.2, $17.1, and $(11.5) in 1987, 1986, and 1985, respectively; and its investments in such operations were $288.0 and $266.3 at December 31, 1987 and 1986.

Aluminum Companies Summary Financial Position	December 31, 1987	December 31, 1986
Current assets	$ 682.2	$ 674.6
Property, plant, and equipment—net	1,578.2	1,677.7
Other assets	160.0	169.8
Total assets	$2,420.4	$2,522.1
Current liabilities	$ 397.5	$ 492.4
Long-term debt	820.7	874.4
Other liabilities	48.1	48.6
Deferred income taxes	58.9	38.8
Stockholders' equity	1,095.2	1,067.9
Total liabilities and stockholders' equity	$2,420.4	$2,522.1
Company's investment in combined companies	$ 307.7	$ 285.8

Aluminum Companies

Summary of Operations	*1987*	*1986*	*1985*
Revenues	$1,072.3	$ 935.7	$1,099.0
Costs and expenses	967.2	909.4	1,048.6
Provision (credit) for income taxes	33.7	10.2	(2.9)
Net income	$ 71.4	$ 16.1	$ 53.3
Company's equity in earnings (loss)	$ 54.4	$ 9.4	$ (12.6)

The relationship between the company's equity in earnings and the summary net income is attributable to the various percentage ownerships in the entities.

Alumina Partners of Jamaica (Alpart), a 50%-owned partnership, has an alumina plant in Nain, Jamaica. At December 31, 1987 and 1986, investments and advances include $32.3 and $32.5 for Alpart, which is accounted for by the equity method. The company is obligated to pay $64.3 and $72.4 of Alpart's debt at December 31, 1987 and 1986, as discussed in Note 12. Production of alumina at Alpart was temporarily suspended in August 1985 due to the continuing adverse economic conditions impacting the aluminum industry. Management believes that market conditions have improved and will continue to improve; and that operating costs at Alpart can be reduced sufficiently to permit economic operation of the facility in the future. The company's policy is to continue normal depreciation for temporarily closed facilities.

The company plans to adopt the provisions of FAS No. 94, requiring full consolidation of all majority-owned subsidiaries, in 1988. Prior years will be restated in accordance with the pronouncement. If the standard had been adopted at December 31, 1987, total assets and total liabilities would not have changed significantly.

The company and its affiliates have interrelated operations. The company provides its affiliates with services such as financing, management, and engineering. The company's significant activities with its aluminum affiliates include the acquisition and processing of bauxite and alumina. Purchases from these affiliates were $409.9, $338.9, and $306.4 in 1987, 1986, and 1985, respectively

5. Property, Plant, and Equipment and Long-Term Leases

	December 31,	
	1987	*198*
Land and improvements	$ 59.2	$ 150.
Buildings	219.0	367.
Machinery and equipment	1,359.6	2,136.
Construction in progress	29.7	50.
Total property—at cost (includes idle facilities: $215.8 in 1986)	1,667.5	2,705.
Accumulated depreciation (includes idle facilities: $130.8 in 1986)	809.3	1,350.
Property, plant, and equipment—net	$ 858.2	$1,354.

The idle facilities shown above consist of the company's Chalmette, Louisiana, aluminum smelter which had bee temporarily closed because of high energy and other cost and the market conditions for primary aluminum. As discussed in Note 3, the company wrote off the remainder of the Chalmette smelter in 1987 as part of the company's restructuring program.

Property, plant, and equipment included capital leases consisting principally of buildings at December 31, 1987 and 1986, of $15.4 and $16.5 (net of accumulated amortization of $12.5 and $15.3).

Rental expense was $35.3, $37.8, and $37.7 in 1987, 1986, and 1985, respectively. The future minimum renta commitments under noncancellable leases at December 31, 1987, were as follows:

	Total Commitments	*Operating Leases*	*Capi Leas*
1988	$ 20.9	$ 18.9	$ 2.
1989	20.1	18.3	1.
1990	18.1	16.3	1.
1991	16.5	14.7	1.
1992	15.5	13.7	1.
1993 and after	326.5	308.2	18.
Total	$417.6	$390.1	27
Less imputed interest			8
Obligations under capital leases			$18

6. Long-Term Obligations

Long-term debt (all of which are obligations of Kaiser Aluminum or its subsidiaries and have not been assumed or guaranteed by KaiserTech), interest rates[1], and maturity schedule at December 31, 1987, are summarized in the following table:

Due:	1988	1989	1990	1991	1992	1993 and After	December 31, 1987 Total	December 31, 1986 Total
First Mortgage Bonds (8.25%-11.625%) maturing through 1996	$ 6.2	$ 18.9	$ 19.3	$ 28.9	$ 17.4	$ 29.6	$120.3	$ 167.2
1986 Credit Agreement:								
Term Loan (variable rate—8.7% at December 31, 1987)	28.1	100.0	100.0	100.0	361.3		689.4	887.1
Revolving Credit								40.0
5% Subordinated Guaranteed Sinking Fund Debentures								16.5
Obligations under Capital Leases—Buildings (5.0%-9.6%)	1.0	.8	.9	.9	1.0	14.1	18.7	19.6
Swiss Franc Bonds (5.5%)	2.0	2.0	2.0	2.0	22.0		30.0	26.6
Pollution Control and Economic Development Facilities Obligations (fixed and variable rates)	9.5	3.2	4.1	3.0	2.6	46.9	69.3	72.0
Other Borrowings (variable and fixed rates)	6.1	3.4	.5	.5	.1	1.7	12.3	99.1
Total	$52.9	$128.3	$126.8	$135.3	$404.4	$ 92.3	940.0	1,328.1
Less amount due within one year							52.9	143.2
Long-term debt							$887.1	$1,184.9

(1) Kaiser Aluminum has entered into $140.0 of interest rate swap agreements having the effect of fixing at approximately 12% the interest cost of variable rate debt for one to two and one-half years from December 31, 1987.

In March 1986, Kaiser Aluminum entered into a credit agreement with banks holding $1,008.0 of Kaiser Aluminum's outstanding debt, providing for an extension of the debt as a term loan maturing December 31, 1992, and the establishment of a $165.0 revolving credit facility which expires December 31, 1989. Kaiser Aluminum is required to make minimum principal payments of $3.8 for the first three quarters of 1988 and $16.7 for the fourth quarter and $100.0 for each of the years 1989-1991 with the final balance of $361.3 due in 1992. The maximum aggregate amount of loans under the above term loan and revolving credit facility may not exceed $825.0 and $725.0 on and after December 31, 1987 and 1988. As part of the 1986 refinancing, Kaiser Aluminum agreed to pay supplemental interest on certain credit obligations to their original maturity, principally 1987. Such interest expense totaled $6.5 and $11.6 in 1987 and 1986.

Substantially all of Kaiser Aluminum's domestic plant properties now owned or to be acquired by Kaiser Aluminum are subject to the lien of Kaiser Aluminum's First Mortgage Bond Indenture ("Indenture"). The capital stock of Kaiser Bauxite Company and Kaiser Jamaica Corporation (wholly owned subsidiaries) is also pledged as collateral under the Indenture. The amount of loans outstanding under the 1986 credit agreement together with certain other obligations of Kaiser Aluminum are secured by a pledge of collateral which includes principal domestic facilities, inventories, accounts receivable and notes receivable. The capital stock of KHKDC is also pledged as collateral.

Kaiser Aluminum's status at December 31, 1987, with respect to the principal covenant provisions (as defined) of the 1986 credit agreement, was:

	Covenant Compliance Limit	Status
Minimum working capital	$ 310.0	$ 367.4
Minimum consolidated net worth	1,000.0	1,092.3
Maximum consolidated indebtedness	1,650.0[1]	1,254.7
Maximum ratio of consolidated indebtedness to total capital	63.5%[2]	53.5%
Maximum aggregate investments from January 1, 1986, through December 31, 1987	$ 15.0	$ 1.7
Maximum capital expenditures (including discontinued operations) in 1987	160.8	86.4

(1) This compliance limit becomes $1,550.0 on December 31, 1988.
(2) This compliance limit becomes 60.0%, 55.0%, and 52.5% at the end of each fiscal quarter during 1988, 1989, and 1990-1992, respectively.

There are also restrictions on Kaiser Aluminum regarding liens, mergers, common stock dividends and stock repurchases, issuance of preferred stock, equipment leases, and transactions with (including loans or advances to) affiliates (including the company). Under the restrictions, no common stock dividends could have been paid in 1987. As of December 31, 1987, availability to the company of the net assets of Kaiser Aluminum is restricted, subject to specific permitted transactions as described in the Indenture and 1986 credit agreement.

In connection with Kaiser Aluminum's 1986 credit agreement with its banks, the Indenture was amended to: (i) provide that the First Mortgage Bondholders share in the proceeds of certain asset sales and financings; (ii) provide for an increase in the annual interest rate on the bonds of 2%; and (iii) generally conform the financial covenants of the Indenture to those of the 1986 credit agreement. In addition, the First Mortgage Bondholders share in the collateral granted to the banks pursuant to the 1986 credit agreement.

Kaiser Aluminum is required to prepay debt and other obligations from the net cash proceeds of asset dispositions as follows: 85% of the first $200.0; 70% of the next $200.0; and 55% of all subsequent amounts. This provision does not apply to sales of assets in the ordinary course of business. Kaiser Aluminum is also required to prepay debt and other obligations equal to 53.13% of the first $80.0 of net cash proceeds from the sale of equity and 53.13% of the net cash proceeds from the sale of subordinated debt. The aggregate required prepayment from sales of equity and subordinated debt will not exceed $58.8. The 1986 credit agreement and the amendment to the Indenture provide for the allocation of these prepayments among Kaiser Aluminum's bank debt, Firs Mortgage Bonds, and certain other obligations. During 1986 and 1987, Kaiser Aluminum received $423.9 in net cash proceeds of asset and other dispositions of which $391.4 was applicable to the first $400.0 of proceeds mentioned above.

There were no outstanding borrowings at December 31, 1987, against the $165.0 1986 revolving credit facility. Interest on the revolving credit facility is tied to prevailing short-term market rates.

Interest expense for continuing operations was $106.0, $127.5, and $122.8 in 1987, 1986, and 1985, respectively; amounts are net of interest costs of $2.2, $2.4, and $6.1 which were capitalized. During these same periods, interest expense for discontinued operations was $15.4, $22.1, and $25.3, respectively.

7. Minority Interests — Redeemable Preference Stock

In March 1985, Kaiser Aluminum entered into a three-year agreement with the United Steelworkers of Americ (USWA) whereby shares of a new series of "Cumulative (1985 Series A) Preference Stock" would be issued to an employee stock ownership plan in exchange for certain elements of wages and benefits. Concurrently, a similar plan was established for certain nonbargaining employees. Under these arrangements, 4,900,000 shares of the Series A Stock and 1,100,000 shares of the Series B Stock have been reserved for issuance. Series A Stock and Serie B Stock ("Series A and B Stock") each have a par value of $1 per share and a liquidation and redemption value of $50 per share plus accrued dividends, if any.

For financial reporting purposes, Series A and B Stock is recorded when issued at its fair value ($15 per share in 1987 and $10 per share in 1986) based on independent appraisal with a corresponding charge to compensation cost. In February 1988, 788,266 shares of Series A and B Stock are to be issued to the employee stock ownership plans with respect to 1987 compensation. In February 1987 and 1986, 878,207 and 929,923 shares of Series A and B Stock were issued to the employee stock ownership plans with respect to 1986 and 1985 compensation. Total shares outstanding (giving effect to the February 1988 contribution) at December 31, 1987, are 2,293,281 of Series A and 303,116 of Series B.

While held by the plan trustee, Series A Stock is entitled to cumulative annual dividends, when and as declared by the Board of Directors, payable in Series A Stock on or before March 1, 1990, in respect to years through December 31, 1989, based on a formula tied to Kaiser Aluminum's pre-tax income from aluminum operations; and payable in stock or in cash at Kaiser Aluminum's option on or after March 1, 1991, in respect to years commencing January 1, 1990, based on a similar formula. When distributed to plan participants (generally on separation from Kaiser Aluminum), the Series A Stock is entitled to an annual cash dividend of $5 per share, payable quarterly, when and as declared by the Board of Directors. Holders of the Series B Stock are entitled to comparable dividends.

Redemption fund agreements require Kaiser Aluminum to make annual payments by March 31 each year commencing in 1986 based on a formula tied to consolidated net income until the redemption funds are sufficient to redeem all Series A and B Stock. On an annual basis, the minimum payment is $4.3 and the maximum payment is $7.3. In March 1986, Kaiser Aluminum paid $3.2 for the last nine months of 1985. Kaiser Aluminum contributed $4.3 in March 1987 and will contribute $4.3 in March 1988. The plan will distribute the Series A and B Stock in the event of death, retirement, or in other specified circumstances. Kaiser Aluminum may also redeem such stock at $50 per share plus accrued dividends, if any. After December 31, 1987, at the option of the plan participant, the trustee shall (i) redeem stock at its redemption value to the extent funds are available in the redemption fund, or (ii) redeem stock at its redemption value on a five-year installment basis with interest at market rates for distributed shares earned after December 31, 1985.

The Series A and B Stock are entitled to the same voting rights as Kaiser Aluminum's Common Stock and to certain additional voting rights under certain circumstances including the right to elect, along with other Kaiser Aluminum $1 preference stockholders, two directors whenever accrued dividends have not been paid on two annual dividend payment dates, or when accrued dividends in an amount equivalent to six full quarterly dividends are in arrears. The Series A and B Stock restrict the ability of Kaiser Aluminum to redeem or pay dividends on its Common Stock if it is in default on any dividends payable on the Series A and B Stock.

8. Stockholders' Equity and Minority Interests — Other Preference Stocks

Changes in stockholders' equity and minority interests were as follows:

	Minority Interests		*Stockholders' Equity*				
	Redeemable Preference Stocks	*Other Preference Stocks*	*Preferred Stock*	*Common Stock*	*Additional Capital*	*Currency Translation Adjustment*	*Retained Earnings*
Balance, January 1, 1985		$44.1		$14.6	$279.8	$(32.4)	$ 977.8
Net loss							(190.3)
Dividends on common stock ($.15 per share)							(6.5)
Acquisition of Distec Corporation (150,000 shares)				.1	2.0		
Supplemental retirement plan contributions (103,000 shares)					1.7		
Conversions (9,718 preference shares into 37,400 common shares)		(.9)			1.0		
Stock options exercised (184,450 shares)				.1	2.6		
Redeemable preference stock issued as compensation	$ 8.9						
Translation adjustments						29.0	
Balance, December 31, 1985	8.9	43.2		14.8	287.1	(3.4)	781.0
Net loss							(39.8)
Supplemental retirement plan contributions (112,156 shares)					1.4		
Conversions (5,786 preference shares into 22,345 common shares)		(.6)			.6		
Stock options exercised (427,868 shares)				.1	6.1		
Redeemable preference stock issued as compensation	9.2						
Redeemable preference stock accretion	6.0						(2.6)
Translation adjustments						30.5	
Balance, December 31, 1986	24.1	42.6		14.9	295.2	27.1	738.6
Net loss							(362.0)
Conversions (13,338 preference shares into 51,456 common shares)		(1.4)			1.4		
Stock options exercised (207,022 shares)				.1	2.9		
Preferred stock issued (8,235,294 shares)			$8.2		119.2		
Preferred stock dividends:							
Cash							(3.2)
Common stock (227,231 shares)				.1	4.6		(4.7)
Preference stock repurchased from pension plans (600,000 shares)		(30.0)			(6.4)		
Redeemable preference stock to be issued as compensation	11.8						
Redeemable preference stock accretion	3.0						
Translation adjustments						(20.1)	
Balance, December 31, 1987	$38.9	$11.2	$8.2	$15.1	$416.9	$ 7.0	$ 368.7

The outstanding shares of other Kaiser Aluminum preference stocks held by parties other than the company, in descending order of seniority, were:

	Outstanding December 31,	
	1987	1986
Preference, Cumulative Convertible, $100 par:		
4-1/8%	28,449	32,924
4-3/4% (1957 Series)	22,704	25,614
4-3/4% (1959 Series)	39,913	44,709
4-3/4% (1966 Series)	21,466	22,623
Preference, $5.25 Cumulative Convertible (1984 Series), $1 par — $50 stated value		600,000

Kaiser Aluminum's Cumulative Convertible Preference Stocks, $100 par value ("$100 Preference Stocks"), restrict acquisition of junior stock and payment of dividends. At December 31, 1987, such provisions were less restrictive as to the payment of cash dividends than the 1986 credit agreement provisions. At its option, Kaiser Aluminum may redeem its $100 Preference Stocks at par value plus accrued dividends.

At December 31, 1987, the 4-1/8% and 4-3/4% (1957 Series, 1959 Series, and 1966 Series) $100 Preference Stocks were convertible into 439,157 shares of Common Stock of KaiserTech at prices of $27.96, $24.89, $24.72, and $25.34, respectively.

In September 1987, the company purchased all 600,000 shares of the $5.25 Cumulative Convertible (1984 Series) Preference Stock, $1 par value ("1984 Series Stock"), from certain employee benefit plans for $36.4. These shares each had a preference in liquidation of $50 and were convertible into 2.963 shares (a total of 1,777,800 shares) of Common Stock of KaiserTech.

9. Stock Option Plan

At December 31, 1987 and 1986, 1,321,263 and 1,528,285 shares of KaiserTech Common Stock were reserved for issuance to key employees pursuant to the employee stock option plan, under which 213,613 and 509,735 options were exercisable. Options outstanding at December 31, 1987, of 731,313 shares, included 103,000 nonqualified options and 628,313 incentive options at prices ranging from $8.81 to $16.19 per share. In 1987, options for 89,100 shares expired or were cancelled. On May 1, 1987, the Kaiser Aluminum Stock Option Plan became the Stock Option Plan of the company.

The price of all options is the market price of common stock at the date of grant. Options are exercisable on conditions determined by the stock option committee, but generally not before one year nor more than six years from date of grant.

10. Income Taxes — Continuing Operations

The provisions (credits) for income taxes consist of the following:

	U.S. Federal	Foreign	State	Total
1987				
Current		$28.7	$ .1	$ 28.8
Deferred	$ 6.7	9.0		15.7
Total	$ 6.7	$37.7	$ .1	$ 44.5
1986				
Current	$ 2.4	$12.3	$ (.7)	$ 14.0
Deferred	(66.7)	9.7		(57.0)
Total	$ (64.3)	$22.0	$ (.7)	$ (43.0)
1985				
Current	$ 4.0	$ 6.8	$(1.8)	$ 9.0
Deferred	(176.0)	1.3		(174.7)
Total	$(172.0)	$ 8.1	$(1.8)	$(165.7)

Income taxes are classified as domestic or foreign based on whether payment is made or due to the U.S. or a foreign country. Certain income classified as foreign is subject to domestic (U.S.) income taxes.

Tax provisions (credits) applicable to consolidated and unconsolidated companies' results are shown below:

	1987	1986	1985
Consolidated companies	$19.7	$(51.0)	$(165.3)
Unconsolidated companies (primarily in cost of products sold)	24.8	8.0	(.4)
Total	$44.5	$(43.0)	$(165.7)

The tax effects of timing differences are:

	1987	1986	1985
Operating loss carryforwards	$ 6.7	$(40.0)	$(143.1)
Pension expense deferred for tax purposes		(12.9)	
Investment tax credits		(6.3)	(6.6)
Depreciation	9.6	43.0	22.2
Plant write-downs		(5.1)	(82.8)
Exploration and development costs		(19.3)	11.2
Capitalized interest, property taxes, and other costs		(1.6)	10.7
Undistributed earnings of subsidiaries and affiliates		3.5	.7
Inventory valuation method		(13.7)	(4.8)
Other	(.6)	(4.6)	17.8
Total	$15.7	$(57.0)	$(174.7)

The company had net operating loss carryforwards for tax purposes of $579.7 (which expire in 1999 to 2002) at December 31, 1987. Such carryforwards will be reduced over a period of four years by the unamortized amount of $129.5 relating to the 1985 change in the method of accounting for inventories from last-in, first-out (LIFO) to first-in, first-out (FIFO). In addition, the company had investment tax credit carryforwards of $64.4 which is net of a 35% reduction required by the 1986 Tax Reform Act and which expire in 1992 to 2001. The investment tax credit carryforwards have been recognized in the financial statements as a reduction of deferred income taxes. The benefits of net loss carryforwards through 1986 have previously been recognized in the financial statements as a reduction of deferred income taxes. No benefit was recognized for the 1987 net loss because recovery is not assured during the carryforward period. At December 31, 1987, net loss carryforwards for financial statement purposes (for which no tax benefit has been recognized) approximated $459.0.

In December 1987, the Financial Accounting Standards Board issued a new statement on accounting for income taxes ("FAS No. 96"). Although the company is not required to implement FAS No. 96 until 1989, early and retroactive application is permitted. The company has not determined when it will implement FAS No. 96 or which transition method it will elect. However, preliminary analysis indicates that implementation of FAS No. 96 would not have had a significant effect on retained earnings at December 31, 1987.

The provision (credits) for income taxes are different from the amounts computed by applying the U.S. statutory federal income tax rate of 40% for 1987 and 46% for 1986 and 1985. The differences are summarized as follows:

	1987	1986	1985
Credits at statutory rates	$(120.8)	$(55.6)	$(167.4)
Increase (decrease) resulted from:			
Domestic losses for which no U.S. income tax benefit is available	177.7		
Investment tax credits		(3.4)	(6.6)
Difference in foreign and U.S. tax rates	(13.8)	3.2	2.8
Percentage depletion		(5.5)	(4.2)
Difference in basis on sale of affiliate		4.1	
Foreign tax deductions and credits		7.0	4.9
Other	1.4	7.2	4.8
Provision (credit) for income taxes	$ 44.5	$(43.0)	$(165.7)

It is the company's intent that undistributed earnings of consolidated and unconsolidated subsidiaries and joint venture companies, in most cases, will continue to be reinvested. Undistributed earnings on which the company has not provided taxes which may be payable upon distribution were $173.5, $178.2, and $199.2 at December 31, 1987, 1986, and 1985, respectively.

11. Retirement and Bonus Plans

Effective January 1, 1986, the company adopted certain provisions of FAS Nos. 87 and 88 relating to employers' accounting for pension plans, for all U.S. pension plans. This accounting change decreased the 1986 net loss by $10.9 ($.24 per common share). Prior years financial statements were not restated. As permitted by the Standards, the company has deferred application of the Standards to its foreign pension plans and has deferred adoption of the provisions which would recognize certain accumulated pension benefit obligations and the related intangible asset in the company's Consolidated Balance Sheet.

The company's domestic retirement plans are contributory for salaried employees and noncontributory for hourly employees. Foreign retirement plans are principally noncontributory. A consolidated presentation of accumulated benefits and net assets would not be meaningful because foreign plans use various methods of funding and benefits determination. For foreign plans, the excess of vested benefits over the total of balance sheet accruals and plan assets is not significant.

In all domestic plans, except for plans representing less than 1% of the total accumulated benefit obligation and less than 2% of the plan assets at fair value, the benefit obligations exceed the plan assets. Employee pension benefit plans status at December 31, 1987 and 1986, is as follows:

	December 31,	
	1987	*1986*
Accumulated benefits obligation:		
Vested employees	$(697.6)	$(727.8)
Nonvested employees	(51.1)	(49.1)
Accumulated benefit obligation	(748.7)	(776.9)
Additional amounts related to projected salary increases	(35.4)	(60.5)
Projected benefit obligation	(784.1)	(837.4)
Plan assets (principally fixed income obligations and common stocks) at fair value	496.4	479.6
Plan assets less than projected benefit obligation	(287.7)	(357.8)
Unrecognized net gain	(43.7)	(9.4)
Unrecognized net obligation	196.8	251.2
Unfunded accrued pension liability included in the Consolidated Balance Sheet (principally in long-term liabilities)	$(134.6)	$(116.0)

The components of net periodic pension cost for 1987 and 1986 are as follows:

	1987	*1986*
Service cost—benefits earned during the year	$14.7	$15.1
Interest cost on projected benefit obligation	63.6	66.4
Return on assets—actual	(38.6)	(62.4)
—deferred gain (loss)	(11.6)	9.4
Amortization of unrecognized net obligation (1986 adjusted for $14.3 reduction in 1985 cost to minimum)	17.3	3.6
Net periodic pension cost	$45.4	$32.1

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

	1987	*1986*
Discount rate	8.5%	8.0%
Expected long-term rate of return on assets	10.0%	11.0%
Rate of increase in compensation levels	6.0%	6.0%

The costs of the benefit plans for 1985 amounted to $74.2.

During 1987, the company recorded curtailment losses of $39.5 to reflect the shutdown of five plant locations. The recorded loss reduced unrecognized net obligation.

In September 1986, Kaiser Aluminum deferred the payment of $33.7 (out of $47.1) in contributions to certain pension plans pursuant to a minimum funding standard waiver received from the Internal Revenue Service. During 1987, the company paid the first installment of $5.6 and prepaid $15.8. At December 31, 1987, $12.3 remains to be funded ($9.5 in long-term liabilities). The waiver permits payment in installments with interest up to five years.

The contribution for 1984 made in September 1985 included 2,173,913 shares (3.8%) of common stock of KDC (a majority-owned subsidiary at that time) at a total value of $13.0. Under terms of the contribution, the company repurchased the shares for $14.7 in September 1986.

The company and its subsidiaries provide certain health care and life insurance benefits for retired employees. Substantially all employees may become eligible for those benefits if they reach retirement age while still working for the company. Those benefits are provided through administrative services contracts with various insurance carriers. The company pays the cost of providing these benefits as incurred. The cost of these benefits was $30.5, $26.6, and $23.1 for 1987, 1986, and 1985, respectively.

The company also has an executive bonus plan and has a supplemental retirement plan for salaried employees under which the participants contribute a percentage of their base salaries. The company's contributions (1987, $1.7; 1986, $1.6; and 1985, $1.8) toward these plans are generally based on earnings and net worth. There were no contributions to the executive bonus plan during the past three years. The company's contributions to the supplemental retirement plan for 1987 will be substantially all made in the form of the company's Common Stock.

12. Commitments and Contingencies

The company has financial commitments, including purchase agreements, tolling arrangements, forward foreign exchange and forward sales contracts, letters of credit, and guarantees.

Purchase agreements and tolling arrangements include agreements for the tolling of alumina into aluminum by Volta Aluminium Company Limited (Ghana) (90% owned); and for the supplying of alumina to and purchasing of aluminum from Anglesey (Wales) (49% owned).

Kaiser Aluminum also has long-term agreements negotiated as part of arranging financing for certain joint ventures of which it is a member. These contracts include agreements for the purchasing and tolling of bauxite into alumina by Queensland Alumina Limited (QAL) (Australia) (28.3% owned); for the purchasing of alumina from Alpart (50.0% owned); and for the purchasing and tolling of alumina into aluminum by Boyne Smelters Limited (BSL) (Australia) (20.0% owned). These obligations expire in 2008, 2021, and 2007, respectively. Under the agreements, Kaiser Aluminum is unconditionally obligated to make payments sufficient to pay its proportional share of debt, operating, and certain other costs of these joint ventures. The aggregate minimum amount of required principal payments at December 31, 1987, is $281.1 ($24.6, 1988; $28.0, 1989; $48.2, 1990; $88.3, 1991; $72.7, 1992; $19.3, thereafter). At December 31, 1987, other assets of Kaiser Aluminum include $4.9 of debt repayment in the form of a purchase of interests in outstanding notes of an affiliate. Kaiser Aluminum's share of payments, including operating costs and certain other expenses under the agreements, was $129.9, $136.6, and $146.9 in 1987, 1986, and 1985, respectively.

The company is engaged in various litigation and arbitration proceedings. While there are uncertainties inherent in the ultimate outcome of such proceedings, management believes that the resolution of such uncertainties will not materially affect the company's financial position or results of operations.

13. Geographic Area Information

The company now operates solely in the aluminum business. Discontinued operations consist of agricultural chemicals, refractories, trading, real estate, and industrial and specialty chemicals. See Note 2.

Export sales from continuing operations totaled $197.9, $82.0, and $46.3, in 1987, 1986, and 1985, respectively.

Geographic area information relative to continuing operations is summarized as follows:

	1987	*1986*	*1985*
Net Sales to Customers:			
Domestic	$1,447.1	$1,486.8	$1,451.2
Foreign	540.1	480.3	322.8
	1,987.2	1,967.1	1,774.0
Intraenterprise Sales and Transfers:			
Domestic	12.5	9.8	13.1
Foreign	399.0	347.5	241.6
	411.5	357.3	254.7
Total Sales	2,398.7	2,324.4	2,028.7
Eliminations	(411.5)	(357.3)	(254.7)
Net Sales	$1,987.2	$1,967.1	$1,774.0
Income (Loss) from Continuing Operations Before Income Taxes and Minority Interests:			
Domestic	$ (333.0)	$ (200.0)	$ (318.5)
Foreign	31.1	79.1	(45.5)
Total	$ (301.9)	$ (120.9)	$ (364.0)
Identifiable Assets at December 31:			
Domestic	$1,769.9	$2,072.4	$2,165.1
Foreign	418.3	768.0	660.6
Discontinued Operations—net	403.7	355.9	409.9
Total	$2,591.9	$3,196.3	$3,235.6
Investments and Advances Included in Identifiable Assets:			
Domestic		$ .1	$ 1.4
Foreign	$ 311.2	289.8	299.8
Total	$ 311.2	$ 289.9	$ 301.2

The consolidated financial statements include foreign liabilities of $223.2, $344.8, and $510.5 for 1987, 1986, and 1985, respectively. The aggregate foreign currency gain or (loss) included in determining net income for 1987 and 1986 was $(13.5) and $.4.

14. Earnings (Loss) Per Common Share

Primary earnings (loss) per common share is computed by dividing net income (loss) available for Common Stock by the weighted average number of shares of Common Stock outstanding and, if dilutive, Common Stock equivalents (options). Fully diluted earnings (loss) per common share is computed by dividing adjusted net income by the weighted average number of shares of Common Stock outstanding, and, if dilutive, common stock equivalents (options), and shares issuable upon conversion of debentures and Preferred and Preference Stocks. In all three years fully diluted earnings per share was antidilutive; and, as a result, the number of shares used in both computations of earnings (loss) per common share were 45,052,631, 44,594,619, and 43,926,611 in 1987, 1986, and 1985, respectively.

15. The Clore Agreement and Merger Agreement and Related Matters

On April 28, 1987, holders of Kaiser Aluminum's Common Stock and Series A and B Stock approved an agreement dated as of December 15, 1986, as amended, between Alan E. Clore and Kaiser Aluminum ("Clore Agreement"), including the transactions contemplated thereby, and adopted a related Merger Agreement providing for the reorganization of Kaiser Aluminum into the holding company form of ownership with KaiserTech as the holding company for Kaiser Aluminum. At the same time, the holders of Kaiser Aluminum's Common Stock and Series A and B Stock together with the holders of each series of Kaiser Aluminum's $100 Preference Stocks, voting in relation to their respective series also approved amendments to the Restated Certificate of Incorporation of Kaiser Aluminum whereby the shares of $100 Preference Stock would be convertible into shares of the Common Stock of KaiserTech following the reorganization, rather than into shares of the Common Stock of Kaiser Aluminum, on the same terms and conditions as such shares were then convertible into shares of the Common Stock of Kaiser Aluminum.

In the reorganization completed on May 1, 1987, each outstanding share of the Common Stock of Kaiser Aluminum was converted into a share of the Common Stock of KaiserTech and Kaiser Aluminum became a subsidiary of KaiserTech. The Series A and B Stock, the 1984 Series Stock, and the $100 Preference Stock remained outstanding as shares of Kaiser Aluminum. The shares of 1984 Series Stock and $100 Preference Stock became convertible into shares of the Common Stock of KaiserTech.

On May 1, 1987, under the Clore Agreement, Mr. Clore purchased from KaiserTech a new issue of 8,235,294 shares of $1.53 Cumulative Convertible (1987 Series A) Preferred Stock of KaiserTech ("1987 Series Stock") in exchange for securities issued by the United States Government having a market value of $140.0. Each share of 1987 Series Stock is entitled to dividends at an annual rate of $1.53, payable quarterly in cash or KaiserTech Common Stock, has a liquidation value of $17, has one vote, and is convertible into one share of KaiserTech Common Stock at the election of the holder. Mr. Clore also received warrants to purchase, in certain limited circumstances and prior to May 1, 1989, up to 2,000,000 shares of Common Stock of KaiserTech for $23 per share.

In connection with the Merger Agreement, KaiserTech contributed $25.0 of the proceeds from the 1987 Series Stock to Kaiser Aluminum for repayment of debt.

The Clore Agreement provides that for five years following the reorganization KaiserTech shall have a Board of 14 directors of whom eight shall be nominated for election by Mr. Clore, five shall be nominated for election initially by Kaiser Aluminum's current Board of Directors and thereafter by those initial directors and their successors in office (the "Continuing Directors") and one shall be, so long as required by the company's collective bargaining agreement with the USWA, a person nominated for election by the USWA.

The Clore Agreement provides that for five years, except with the approval of a majority of the Continuing Directors, neither Mr. Clore nor certain other individuals or entities (the "Restricted Group") will acquire more than 66-2/3% of the combined voting power of all KaiserTech securities then outstanding except pursuant to a Merger Transaction (as defined in the Clore Agreement). Any such Merger Transaction must also be approved by a majority of the Continuing Directors and by a majority of the shares held by persons who do not beneficially own 20% or more of the shares of KaiserTech entitled to vote generally in the election of directors (the "Unaffiliated Shares").

The Clore Agreement also provides that the Restricted Group may not engage in any transaction with KaiserTech or its subsidiaries (with certain exceptions) unless such transaction has been approved by a majority of the Continuing Directors, or if there are none then in office, by a majority of the Unaffiliated Shares.

All of the shares of Common Stock of KaiserTech and the 1987 Series Stock presently owned by Mr. Clore and his affiliates (the "Clore Group") have been pledged to lenders of the Clore Group. The Clore Group has disclosed that it has defaulted under various borrowing arrangements under which funds were obtained to carry its investments in the Common Stock of KaiserTech and 1987 Series Stock. As a result of its defaults, the Clore Group is seeking to dispose of all or a portion of its Common Stock of KaiserTech and 1987 Series Stock. Members of the Clore Group have also defaulted under agreements relating to the purchase of shares of Common Stock of KaiserTech.

KaiserTech has retained investment advisors to explore available opportunities to assist the Clore Group in disposing of all or part of the shares of the Common Stock of KaiserTech or 1987 Series Stock held by the Clore Group if that is in the best interests of KaiserTech's stockholders.

On January 13, 1988, the Clore Group disclosed that Mr. Clore and members of the Clore Group are engaged in discussions in connection with a possible sale of all or a portion of the shares of Common Stock of KaiserTech and 1987 Series Stock owned by members of the Clore Group. There can be no assurance that any agreement will be reached, the possible terms thereof or, if such an agreement is reached, whether such transaction will be consummated.

The Stockholders and the Board of Directors of
KaiserTech Limited:

We have examined the consolidated balance sheets of KaiserTech Limited and its consolidated subsidiary companies as of December 31, 1987 and 1986, and the related statements of consolidated income and changes in consolidated financial position for each of the three years in the period ended December 31, 1987. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We did not examine the financial statements of companies representing 29% of the investments accounted for by the equity method at December 31, 1986 and 1985. The 1986 and 1985 financial statements of these companies were examined by other auditors whose reports thereon have been furnished to us, and our opinion expressed herein, insofar as it relates to amounts included for these companies for 1986 and 1985, is based solely upon the reports of the other auditors.

In our opinion, based upon our examinations and the reports of other auditors referred to above, such consolidated financial statements present fairly the financial position of KaiserTech Limited and its consolidated subsidiary companies at December 31, 1987 and 1986, and the results of their operations and the changes in their financial position for each of the three years in the period ended December 31, 1987, in conformity with generally accepted accounting principles consistently applied during the period except for the change, with which we concur, in 1986 in the method of accounting for defined benefit pension plans as described in Note 11 to the financial statements.

Deloitte Haskins + Sells

Oakland, California
February 10, 1988

Mineral Reserve Data

In October of 1979 the Government of Jamaica granted to Kaiser Bauxite Company a mining lease for the mining of bauxite sufficient to supply Kaiser Aluminum's then-existing Louisiana alumina refineries at their capacities of 1,656,000 metric tons per year for a period of 40 years commencing February 1980. In addition, the company's share of proved bauxite reserves held by an aluminum affiliate total about 53,300,000 tons, and the company has contractual rights to an additional 175,000,000 tons.

Operating and Financial Data

	1987	1986	1985	1984	1983	1982	1981	1980	1979	1978
Aluminum tonnage (metric):										
Capacity at year-end	690,000[1]	903,000	923,000	923,000	1,053,000	1,033,000	1,012,000	1,004,000	1,004,000	1,003,000
Primary production	633,328[2]	577,861	521,886	538,662	417,289	617,566	940,119	992,353	973,670	908,243
Sales:										
Primary	124,833	74,591	37,218	169,369	144,471	215,753	168,621	251,402	229,683	211,285
Fabricated	648,682	688,150	636,956	571,827	602,972	566,377	670,483	717,347	756,342	733,974
Total sales	773,515[2]	762,741	674,174	741,196	747,443	782,130	839,104	968,749	986,025	945,259
Average number of employees	12,521	13,096	13,454	16,234	17,248	20,688	26,250	28,042	28,951	28,985
Number of stockholders:										
Preferred and preference	1,878	1,403	955	1,052	1,109	1,251	1,377	1,755	2,773	3,059
Common	13,276	14,242	16,942	19,429	20,691	22,425	22,912	23,085	24,004	23,836
Additions (millions of dollars):										
Property, plant, and equipment	$81.9	$93.1	$120.7	$232.4	$177.8	$204.6	$290.6	$164.8	$141.4	$148.7
Investments and advances	.1	1.5	.4	1.6	1.2	60.2	44.6	29.3	12.7	12.5

(1) Includes the U.S. plants and the company's share of Volta Aluminium Company Limited, Anglesey Aluminium Limited, Boyne Smelters Limited, and Aluminium Bahrain.

(2) Includes the U.S. plants, Kaiser Aluminium Europe's Voerde smelter (for the first nine months of 1987), and the company's share of Volta Aluminium Company Limited, Anglesey Aluminium Limited, Boyne Smelters Limited, and Aluminium Bahrain.

Quarterly Financial Data[1]

Quarterly financial data for 1987 and 1986 is summarized as follows:

1987 Quarters Ended	*Mar. 31*	*Jun. 30*[2]	*Sep. 30*[3]	*Dec. 31*[4]	*Year*
Continuing operations:					
Net sales	$ 485.1	$ 522.6	$ 523.1	$ 456.4	$1,987.2
Gross profit	62.1	83.0	95.3	55.6	296.0
Income (loss) from continuing operations	(32.5)	(360.1)	11.9	28.0	(352.7)
Net income (loss)	(31.1)	(389.1)	13.4	44.8	(362.0)
Per common share data:					
Earnings (loss):					
Primary—					
Continuing operations	$ (.72)	$ (8.03)	$ .28	$ .55	$ (7.90)
Net income (loss)	(.69)	(8.67)	.31	.92	(8.11)
Fully diluted—					
Continuing operations			.22	.52	
Net income			.25	.83	
Price range (NYSE):					
High	$18-3/8	$19-3/8	$23-1/4	$21-3/4	$ 23-1/4
Low	13-3/4	15	17-5/8	7-3/4	7-3/4
Close	16-3/8	18	20-1/2	11-1/8	11-1/8

1986 Quarters Ended	*Mar. 31*[5]	*Jun. 30*	*Sep. 30*	*Dec. 31*[6]	*Year*
Continuing operations:					
Net sales	$ 466.4	$ 492.7	$ 525.0	$ 483.0	$1,967.1
Gross profit	60.0	55.3	83.3	53.3	251.9
Loss from continuing operations	(5.1)	(32.6)	(2.6)	(44.7)	(85.0)
Net income (loss)	16.5	(30.6)	(3.1)	(22.6)	(39.8)
Per common share data:					
Earnings (loss):					
Primary—					
Continuing operations	$ (.12)	$ (.73)	$ (.06)	$ (1.00)	$ (1.91)
Net income (loss)	.37	(.69)	(.07)	(.51)	(.89)
Price range (NYSE):					
High	$23-1/4	$23	$18-3/8	$18-1/8	$ 23-1/4
Low	16	17-1/2	13-1/2	12-1/2	12-1/2
Close	22-1/4	18-3/8	17-1/2	13-7/8	13-7/8

(1) Restated for discontinued industrial and specialty chemicals operations.

(2) In June 1987, Kaiser Aluminum provided for losses of $387.0, both before and after taxes, relating to the restructuring of its operations. The loss provision of $354.5 in continuing operations consisted principally of write-downs of the electrical products manufacturing business and idle and uneconomic primary aluminum-making capacity, and provision for the loss upon disposition of oil and gas properties. The loss provision of $32.5 in discontinued operations related to certain operations and businesses that were discontinued in recent years.

(3) Includes a pre-tax gain of $16.1 from sale of the food service packaging business. In September 1987, Kaiser Aluminum provided for losses of $13.0, both before and after taxes, relating to the restructuring of corporate staff, $11.6 in continuing operations and $1.4 in discontinued operations.

(4) Includes a pre-tax gain of $52.7 from the sale of Kaiser Aluminium Europe Incorporated.

(5) Includes a pre-tax gain of $20.2 ($18.5 in discontinued operations) from adoption of FAS Nos. 87 and 88 relating to employers' accounting for pension plans. Includes a pre-tax gain of $32.5 from cancellation of a long-term gas supply contract ($13.0 in discontinued operations).

(6) Includes a pre-tax write-down of oil and gas reserves of $59.4 and an after-tax gain from disposition of discontinued operations of $19.1.

Consolidated Balance Sheets (millions of dollars)

ASSETS	1987	1986	1985	1984	1983	1982	1981	1980	1979	1978
Current Assets:										
Cash	$ 118.7	$ 93.8	$ 108.1	$ 36.6	$ 24.8	$ 32.9	$ 74.5	$ 63.1	$ 141.4	$ 66.0
Receivables	326.8	342.7	294.0	359.7	478.9	521.7	303.2	400.0	442.9	428.3
Inventories	439.0	602.1	601.9	649.8	631.1	709.9	895.5	788.0	634.9	563.1
Prepaid expenses	21.8	17.4	12.1	8.8	5.2	23.0	29.0	38.7	35.1	47.0
Current assets of discontinued operations — net	44.6	60.0	87.8	304.7	230.7	240.6	350.8	287.1	231.2	213.2
Total current assets	950.9	1,116.0	1,103.9	1,359.6	1,370.7	1,528.1	1,653.0	1,576.9	1,485.5	1,317.6
Investments and Advances	311.2	289.9	301.2	322.5	309.5	338.1	580.9	465.7	390.9	338.2
Property, Plant, and Equipment — at cost	1,667.5	2,705.5	2,539.3	2,629.8	2,452.8	2,383.6	2,206.7	1,997.6	1,938.1	1,821.8
Accumulated depreciation	809.3	1,350.7	1,144.9	1,108.6	1,046.7	1,025.2	943.6	931.3	911.5	855.4
Property, plant and equipment — net	858.2	1,354.8	1,394.4	1,521.2	1,406.1	1,358.4	1,263.1	1,066.3	1,026.6	966.4
Noncurrent Assets of Discontinued Operations — net	359.1	295.9	322.1	355.1	500.3	490.8	475.3	358.2	320.4	268.1
Other Assets	112.5	139.7	114.0	82.4	96.6	93.8	66.2	86.8	44.6	48.8
Total	$2,591.9	$3,196.3	$3,235.6	$3,640.8	$3,683.2	$3,809.2	$4,038.5	$3,553.9	$3,268.0	$2,939.1
LIABILITIES AND STOCKHOLDERS' EQUITY										
Current Liabilities:										
Accounts payable and accruals	$507.2	$452.7	$405.9	$470.6	$525.7	$462.9	$494.9	$531.3	$534.7	$487.5
Income taxes payable	33.5	42.7	27.4	108.3	147.7	206.9	261.7	332.0	289.3	202.3
Notes payable		26.5	92.3	257.8	114.5	238.6	305.2	31.1	31.0	30.3
Long-term debt — current portion	52.9	143.2	161.6	79.6	33.8	38.6	74.2	63.5	53.1	56.2
Total current liabilities	593.6	665.1	687.2	916.3	821.7	947.0	1,136.0	957.9	908.1	776.3
Long-Term Liabilities	156.8	108.3	103.0	43.0	40.6	43.6	38.0	31.2		
Long-Term Debt	887.1	1,184.9	1,236.1	1,222.0	1,104.5	1,016.4	908.1	721.1	794.0	838.1
Deferred Income Taxes	42.7	47.6	27.6	123.3	272.5	322.9	304.8	263.8	231.8	211.8
Deferred Income	45.7	47.9	50.1	52.3	54.5					
Minority Interests	50.1	66.7	52.1	44.1	14.7	16.0	16.9	22.3	48.2	54.5
Stockholders' Equity:										
Preferred and preference stocks	8.2									
Common stock	15.1	14.9	14.8	14.6	14.5	14.4	14.3	14.1	13.7	13.4
Additional capital	416.9	295.2	287.1	279.8	273.9	269.3	268.4	256.5	223.7	203.1
Currency translation adjustment	7.0	27.1	(3.4)	(32.4)	(16.5)					
Retained earnings	368.7	738.6	781.0	977.8	1,102.8	1,179.6	1,352.0	1,287.0	1,048.5	841.9
Total stockholders' equity	815.9	1,075.8	1,079.5	1,239.8	1,374.7	1,463.3	1,634.7	1,557.6	1,285.9	1,058.4
Total	$2,591.9	$3,196.3	$3,235.6	$3,640.8	$3,683.2	$3,809.2	$4,038.5	$3,553.9	$3,268.0	$2,939.1

(1) Years prior to 1987 restated for discontinued industrial and specialty chemicals operations.

Ten-Year Selected Financial Data[1]
Statements of Consolidated Income (millions of dollars)

Revenues:	*1987*	*1986*	*1985*	*1984*	*1983*	*1982*	*1981*	*1980*	*1979*	*1978*
Net sales	$1,987.2	$1,967.1	$1,774.0	$1,935.7	$1,735.1	$1,833.5	$2,163.2	$2,425.5	$2,255.3	$1,910.7
Other	97.5	68.7	62.3	32.4	81.7	359.7	111.6	119.1	87.5	77.7
Total revenues	2,084.7	2,035.8	1,836.3	1,968.1	1,816.8	2,193.2	2,274.8	2,544.6	2,342.8	1,988.4
Costs and Expenses:										
Cost of products sold	1,691.2	1,715.2	1,624.7	1,827.9	1,655.5	1,903.5	1,937.7	1,871.0	1,730.8	1,530.8
Depreciation	88.7	106.6	101.2	101.0	90.2	96.1	76.1	73.6	68.9	69.6
Selling, administrative, research and development, and general	119.7	128.5	115.0	114.8	105.8	123.7	129.3	128.3	119.4	95.8
Interest	106.0	127.5	122.8	113.3	88.5	112.5	59.8	50.0	52.7	60.7
Other	14.9	78.9	236.6	23.3	62.2	90.3	2.7	10.5	11.7	23.0
Restructuring of operations	366.1									
Total costs and expenses	2,386.6	2,156.7	2,200.3	2,180.3	2,002.2	2,326.1	2,205.6	2,133.4	1,983.5	1,779.9
Income (loss) from continuing operations before income taxes and minority interests	(301.9)	(120.9)	(364.0)	(212.2)	(185.4)	(132.9)	69.2	411.2	359.3	208.5
Provision (credit) for income taxes	44.5	(43.0)	(165.7)	(150.0)	(118.1)	11.9	5.8	167.1	157.4	95.4
Income (loss) from continuing operations before minority interests	(346.4)	(77.9)	(198.3)	(62.2)	(67.3)	(144.8)	63.4	244.1	201.9	113.1
Minority interests	(6.3)	(7.1)	(3.8)	(1.4)	(.7)	(.7)	(.9)	(1.8)	(2.4)	(2.6)
Income (loss) from continuing operations	(352.7)	(85.0)	(202.1)	(63.6)	(68.0)	(145.5)	62.5	242.3	199.5	110.5
Discontinued operations — net of income taxes:										
Income from operations	13.8	26.1	16.8	25.5	17.1	7.6	62.5	50.3	51.8	46.0
Income (loss) on dispositions	(23.1)	19.1	(5.0)	(60.7)						
Income (loss) from discontinued operations	(9.3)	45.2	11.8	(35.2)	17.1	7.6	62.5	50.3	51.8	46.0
Net income (loss)	$ (362.0)	$ (39.8)	$ (190.3)	$ (98.8)	$ (50.9)	$ (137.9)	$ 125.0	$ 292.6	$ 251.3	$ 156.5
Per Common Share Data:										
Average number of shares (000):										
Primary	45,053	44,595	43,927	43,593	43,233	43,098	42,899	41,586	40,575	39,969
Fully diluted	45,053	44,595	43,927	43,593	43,233	43,098	44,426	44,185	44,093	43,912
Earnings (loss):										
Primary	$ (8.11)	$ (.89)	$ (4.33)	$ (2.26)	$ (1.18)	$ (3.20)	$ 2.91	$ 7.04	$ 6.19	$ 3.92
Fully diluted	$ (8.11)	$ (.89)	$ (4.33)	$ (2.26)	$ (1.18)	$ (3.20)	$ 2.84	$ 6.68	$ 5.77	$ 3.64
Dividends			$ .15	$ .60	$ .60	$ .80	$ 1.40	$ 1.30	$ 1.10	$ 0.85
Book value	$ 14.92	$ 24.00	$ 24.39	$ 28.32	$ 31.68	$ 33.94	$ 37.95	$ 36.69	$ 31.26	$ 26.41
Market price (NYSE):										
High	$23-1/4	$23-1/4	$18-3/8	$22-1/2	$22-5/8	$17	$27-1/2	$30-1/4	$22-1/8	$20-1/4
Low	7-3/4	12-1/2	12-5/8	12-3/4	14-7/8	11-1/2	14-1/2	15-3/8	17-1/4	14
Close	11-1/8	13-7/8	17	14-5/8	19-3/4	15-1/8	15-1/4	22-3/4	19-1/4	17-1/2
Price earnings ratio (range: high-low)	deficit	deficit	deficit	deficit	deficit	deficit	9-5	4-2	4-3	5-4
Return on average invested capital (%)[2]	negative	2.4	negative	negative	negative	negative	6.9	14.2	13.1	9.7
Debt-to-capital ratio (%)[3]	49.6	52.2	55.2	51.7	42.2	41.8	39.7	30.7	35.9	41.1

(1) Years prior to 1987 restated for discontinued industrial and specialty chemicals operations.
(2) Average invested capital divided into net operating profit (the sum of net income, the after-tax cost of interest, and change in deferred taxes).
(3) Total debt as a ratio of total debt, deferred income taxes, deferred income, minority interests, and stockholders' equity at year-end.

Domestic Operations (partial list)

State & City	*Operation*
California	
Cupertino	Industrial Foil
Los Angeles	Extrusions
Oakland	Corporate Headquarters
Oxnard	Forgings
Pleasanton	R & D
Indiana	
Bedford	Scrap Reclamation
Louisiana	
Gramercy	Alumina
Ohio	
Belpre	Foil Laminating
Newark	Rod, Bar & Wire
Toledo	Coated Coil
Oklahoma	
Tulsa	Magnesium
Pennsylvania	
Erie	Forgings
Texas	
Sherman	Extrusions
Washington	
Mead	Primary Aluminum
Tacoma	Primary Aluminum
Trentwood	Sheet & Plate
West Virginia	
Ravenswood	Primary Aluminum, Sheet & Plate

Worldwide Operations

KaiserTech Limited, through subsidiaries or affiliates, participates in the following operations in these countries:

Australia
Boyne Smelters Limited (20% owned)
Queensland Alumina Limited (28.3%)

Bahrain
Aluminium Bahrain (17%)

Canada
Kaiser Aluminum & Chemical of Canada, Ltd. (100%)

Ghana
Volta Aluminium Company Limited (90%)

India
Hindustan Aluminium Corporation (26.6%)

Jamaica
Alumina Partners of Jamaica (50%)
Kaiser Jamaica Bauxite Company (49%)

United Kingdom
Anglesey Aluminium Limited (49%)

Auditors: Deloitte Haskins & Sells, Oakland.

Transfer Agents and Registrars: Morgan Shareholder Services Trust Company, New York (all classes of stock; also dividend-paying and conversion agent), Bank of America N.T. & S.A., San Francisco (all classes of stock; also conversion agent), The First National Bank of Chicago, Chicago (common stock transfer agent), Harris Trust and Savings Bank, Chicago (common stock registrar).

Common Stock Listing: KaiserTech Limited common stock is listed on the New York, Midwest, and Pacific stock exchanges. KLU is the ticker tape symbol.

Form 10-K: The corporation's Form 10-K annual report to the Securities and Exchange Commission, including financial statements, may be obtained without charge by writing to the Corporate Secretary, KaiserTech Limited, 300 Lakeside Drive, Room 2036 KB, Oakland, CA 94643.

KAISERTECH LIMITED

Directors

Alan E. Clore
Chairman of the Board, KaiserTech Limited[2]

James S. Pasman, Jr.
President and Chief Executive Officer, KaiserTech Limited and Chairman and Chief Executive Officer, Kaiser Aluminum & Chemical Corporation[2]

John R. Beckett
Director and Retired Chairman of the Board, Transamerica Corporation[2,3]

Jonathan A. Bulkley
President and Chief Executive Officer, Bulkley Capital Partners, Ltd. and Jesup & Lamont Securities Group, Inc.

Guy de Chabaneix
Financial Advisor[1]

A. Stephens Hutchcraft, Jr.
Vice President, KaiserTech Limited and President and Chief Operating Officer, Kaiser Aluminum & Chemical Corporation

Charles A. Lynch
Chairman and Chief Executive Officer, DHL Airways, Inc.[1]

Cornell C. Maier
Consultant to, and Former President and Chief Executive Officer of, KaiserTech Limited and Consultant to, and Former Chairman and Chief Executive Officer of, Kaiser Aluminum & Chemical Corporation[2]

Lawrence C. McQuade
Former Director and Executive Vice President of W. R. Grace & Co.[1,3]

John E. Merow
Chairman and Senior Partner, Sullivan & Cromwell, Attorneys[2]

Paul D. Rusen
President, Employee Ownership, Inc. and Retired Director of District 23, United Steelworkers of America

Fred R. Sullivan
Former Chairman and President, Kidde, Inc.[3]

Raymond S. Troubh
Financial Consultant and Senior Advisor to Salomon Brothers Inc[2]

Eugene E. Trefethen, Jr.
Honorary Director

Corporate Officers

Alan E. Clore
Chairman of the Board

James S. Pasman, Jr.
President and Chief Executive Officer

Edward M. Quinnan
Vice President and Chief Financial Officer

David L. Perry
Vice President and General Counsel

A. Stephens Hutchcraft, Jr.
Vice President

David G. Schmidt
Vice President and Controller

John A. Moore
Vice President and Secretary

John T. La Duc
Treasurer

Assistant Corporate Officer

Raymond F. Garavaglia
Assistant Secretary

[1]Member, Audit Committee
[2]Member, Executive Committee
[3]Member, Executive Compensation and Stock Option Committee

KAISER ALUMINUM & CHEMICAL CORPORATION

Directors

James S. Pasman, Jr.

A. Stephens Hutchcraft, Jr.

Alan E. Clore

Guy de Chabaneix

Charles A. Lynch[1]

Cornell C. Maier

Lawrence C. McQuade[1]

Paul D. Rusen

Raymond S. Troubh[1]

Eugene E. Trefethen, Jr.
Honorary Director

Corporate Officers

James S. Pasman, Jr.
Chairman of the Board and Chief Executive Officer

A. Stephens Hutchcraft, Jr.
President and Chief Operating Officer

Joseph A. Bonn
Vice President

John R. Cady
Vice President

Robert E. Cole
Vice President

Jesse D. Erickson
Senior Vice President

F. Joseph Haydel, Jr.
Vice President

Richard L. Humphrey
Vice President

Robert W. Irelan
Vice President

John T. La Duc
Treasurer

John A. Moore
Vice President, Secretary, ar Deputy General Counsel

Howard M. Nelson*
Senior Vice President and President, Kaiser Chemicals

David L. Perry
Vice President and General Counsel

Jon P. Pierce
Vice President

Edward M. Quinnan
Vice President and Chief Financial Officer

David G. Schmidt
Vice President and Controlle

James E. Sparkman*
Vice President

Assistant Corporate Offic

Charlie Alongi
Assistant Controller

Raymond F. Garavaglia
Assistant Secretary

Bruce D. Oliver*
Assistant Secretary

Gordon V. Rogers
Assistant Secretary

Norman L. van Patten
Assistant Treasurer

[1]Member, Executive Compensatio and Stock Option Committee

*Retiring in March 1988

300 Lakeside Drive
Oakland, California 94643

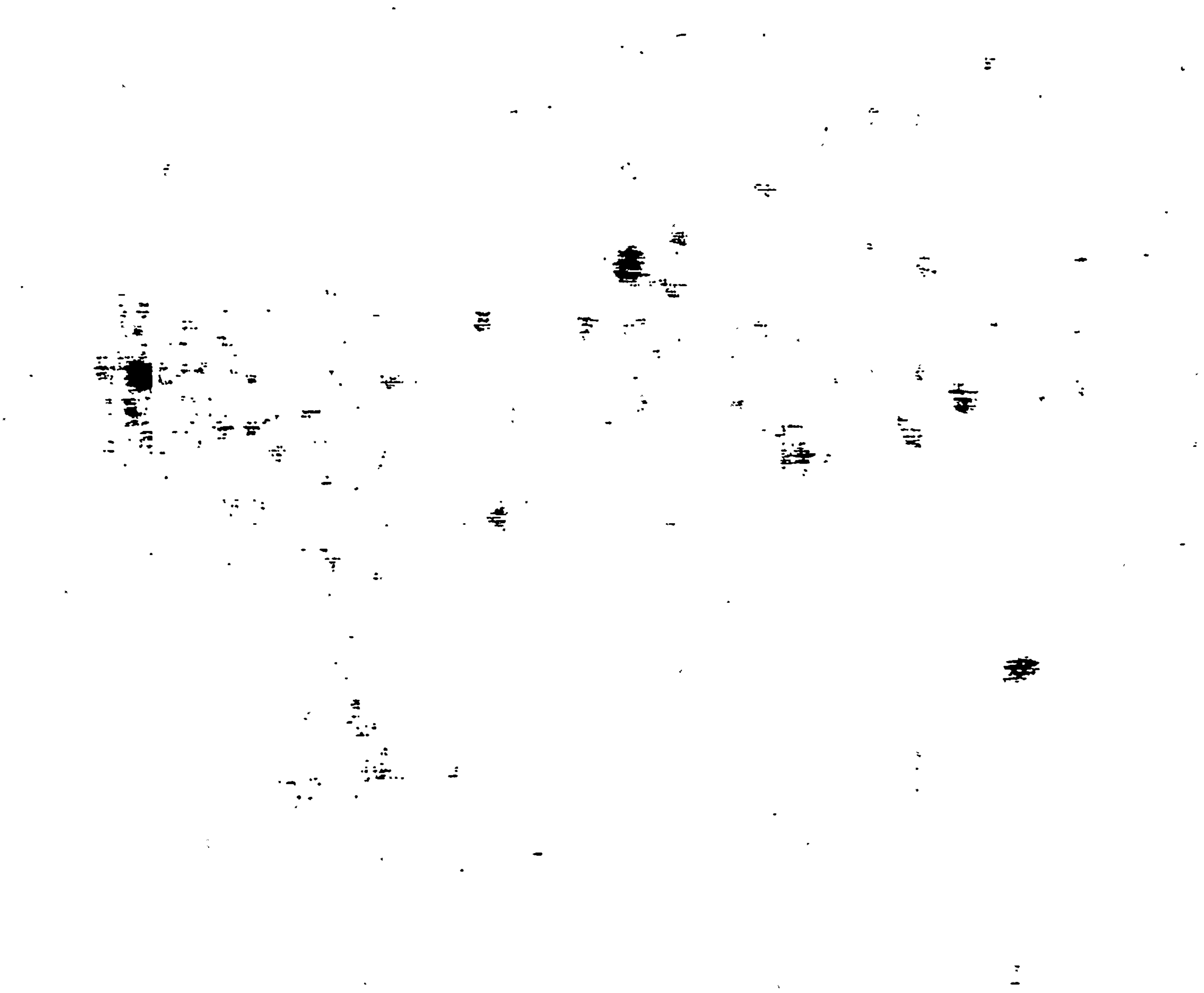
KAISER ALUMINUM & CHEMICAL CORPORATION

1988 ANNUAL REPORT

KAISER ALUMINUM'S
PRINCIPAL GOALS IN SERVING
OUR MARKETS
ARE TO CONTINUE
TO STRENGTHEN
OUR PRODUCT QUALITY,
OUR SERVICE TO CUSTOMERS,
AND OUR PLANT
OPERATING EFFICIENCY.

WE HAVE MADE
EXCELLENT PROGRESS
TOWARD THESE GOALS
AND ARE COMMITTING
THE HUMAN
AND FINANCIAL RESOURCES
NEEDED TO ASSURE
SUCCESS IN THE
FUTURE.

PLAINTIFF'S
EXHIBIT
10230.0



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

(Continues on pages 4 through [illegible])

WHO WE ARE

Kaiser Aluminum & Chemical Corporation is one of the world's leading aluminum companies, operating a total of 22 plants in ten states and six foreign countries. As a fully integrated producer, the company mines bauxite, the major aluminum-bearing ore; refines it into alumina, the intermediate material; produces primary aluminum; and manufactures selected fabricated products. Alumina is sold to Kaiser primary aluminum plants and to outside customers; primary aluminum is sold to Kaiser fabrication plants and to others; and fabricated products are sold — either directly or through distributors — to the beverage container, transportation, aerospace, construction, and consumer durables markets in the U.S. and abroad. At year-end 1988, the company employed about 10,500 persons, roughly 150 of whom were on the corporate staff. These totals are down significantly over the past five years due to asset sales, the discontinuation of various businesses, cost reduction programs, and decentralization.

KaiserTech Limited, Kaiser Aluminum's parent, became a subsidiary of MAXXAM Inc. on October 28, 1988. In addition to Kaiser Aluminum, MAXXAM operates through a separate subsidiary, The Pacific Lumber Company, which is a leading producer of redwood lumber and other forest products. Other MAXXAM subsidiaries are engaged in real estate management and development.

SEIDL NAMED CHAIRMAN & CEO

John M. Seidl was named chairman and chief executive officer of Kaiser Aluminum and KaiserTech Limited on January 23, 1989, succeeding James S. Pasman, Jr. Additionally, he has been nominated to serve on the board of MAXXAM Inc.

Seidl, 49, had been president, chief operating officer, and a director of Enron Corp., Houston, Texas, an international energy company with about $9 billion in assets.

Seidl was a member of the faculty of the Graduate School of Business at Stanford University from 1974 to 1978. He joined Natomas Company in 1977 as a director and later became a member of its executive committee. He joined the management team of the company in 1978, serving in a variety of top posts until the takeover of Natomas by Diamond Shamrock in late 1983. He joined Houston Natural Gas (which later became Enron) as senior vice president for corporate development in 1984.

A 1961 graduate of the U.S. Military Academy at West Point, Seidl received both a master's degree and a Ph.D. in political economy and government from Harvard University. He served as deputy assistant secretary for program systems in the Department of Health, Education and Welfare, and as deputy assistant secretary, program development and budget, in the Department of the Interior.

(Thousands of dollars)	Successor[1] Two Months Ended December 31, 1988	Predecessor[1] Ten Months Ended October 31, 1988	Year Ended December 31, 1987[2]
Net Sales	$298,100	$1,921,400	$2,002,900
Income (Loss) From Continuing Operations	$ 28,100	$ 144,700	$ (343,500)[3]
Net Income (Loss)	$ 28,100	$ 175,700	$ (354,900)[3]
Debt-to-Capital Ratio[4]	37.2%	38.0%	50.5%
Sales of Aluminum Products — Metric Tons	97,145	667,435	773,515
Property, Plant, and Equipment Additions	$ 13,500	$ 80,800	$ 86,600

(1) See Note 1 to financial statements for a description of Successor and Predecessor.

(2) Restated for the adoption of Financial Accounting Standard No. 94 requiring full consolidation of majority-owned subsidiaries.

(3) Includes a $366,100 loss provision, both before and after taxes, relating to the restructuring of continuing operations, consisting principally of write-downs of the electrical products manufacturing business, idle and uneconomic primary aluminum production capacity, and a provision for the loss upon disposition of oil and gas properties.

(4) Total debt as a ratio of total debt, deferred income taxes, deferred income, minority interests, redeemable preference stock, and stockholders' equity.

TABLE OF CONTENTS

For Kaiser Aluminum, 1988 was a year of ownership change, continued strategic accomplishment, and very profitable results.

On October 27, shareholders approved the merger of Kaiser Aluminum's parent, KaiserTech Limited, with a subsidiary of MAXXAM Inc., resolving an ownership uncertainty which had persisted for several years. With that done, we turned our full attention to the challenge of making Kaiser Aluminum the best, most market-driven, customer-responsive supplier in the industry. We are not yet where we want to be. But we believe we have the people, plants, and focused strategy to get us there.

Operationally and financially, 1988 was an excellent year. The company moved solidly into the black, posting its third highest annual net income ever. This performance resulted from a strong aluminum market and from progress made in reducing costs and in concentrating corporate resources on facilities, markets, and product niches offering competitive opportunities and financial rewards.

Kaiser Aluminum is a very different company from the one which existed earlier this decade. While aluminum always has been the core business, we were diversified into a number of non-aluminum businesses. In recent years, we have determined that we should stick to what we do best—produce and sell aluminum. Within aluminum, we should focus on specific opportunities rather than compete so broadly across the board.

Our strategy is:

• To continue to be a fully integrated producer—mining bauxite, refining it into alumina, smelting alumina into aluminum, and manufacturing aluminum into a range of fabricated products.

• To be market-driven, providing customers with the best possible product quality and service.

• To treat all employees fairly and to demand from them the level of productivity which will ensure that we meet corporate goals for quality, customer service, and cost-competitiveness.

• To be among the low-cost producers in times of economic downturn so that we can serve customers profitably and maintain stability of operations.

• To allocate capital to those areas which promise the best returns from both a financial and product quality standpoint.

• To reduce total debt of Kaiser Aluminum and KaiserTech and to refinance it on a basis more in keeping with our long-term assets and strategies.

The facts as they relate to these strategic points are as follows:

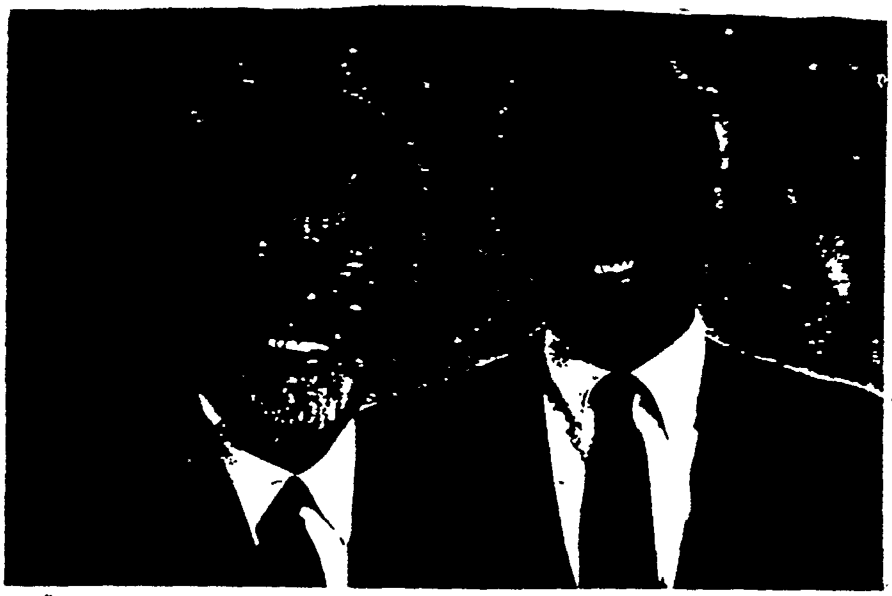
• As a fully integrated aluminum producer, we are divided by product category into six decentralized business units or divisions—raw materials, primary aluminum, flat-rolled products, extruded products, rod/bar/wire, and forgings. These business units are more market-driven, more innovative, more entrepreneurial, and more capable of managing change as a result of decentralization. Corporate staff provides the framework for overall strategy and direction as well as centralized corporate finance, but the business units are largely self-sufficient.

• For us, being market-driven means being positioned with the products our customers need, when they need them. To do this, we have focused on those aluminum-consuming product areas in which our capability is strongest and which offer solid growth potential for our customers and, therefore, for us. These include beverage containers, a market where demand continues to grow; aerospace, which is benefiting from high demand for new commercial aircraft; and transportation, where the amount of aluminum used in cars, trucks, shipping containers, and boats continues to rise because of the metal's versatility and light weight. We also have expanded our alumina sales and diversified the line of primary aluminum products we market to others.

• Any organization is only as good as the people it employs. We are extremely proud of the performance of our people throughout the difficult period which the industry and the company experienced beginning in the early 1980s. During a part of that period, the aluminum industry was depressed severely. Overlapping a portion of that span were more than three years of uncertainty over corporate ownership. The tough-but-honest decisions made then — to reduce overhead, streamline work, and demand more in terms of both quality and output — are paying off.

• Our goal to become a low-cost producer has been strengthened for the long term by facility modernizations, retrofit technology, and process-control improvements; by large and permanent reductions of salaried personnel at corporate headquarters and plant locations; by implementation of variable salary plans which share profits in good times but reduce personnel expenses when aluminum prices are low or business performance is less than satisfactory; by improvements in labor productivity and implementation of a semi-variable wage scale for most of Kaiser Aluminum's unionized employees; and by variable-rate power supply contracts for our principal domestic primary aluminum and fabricating facilities.

• The efficient allocation of capital is one of senior management's most important functions. In the past several years, the company has spent approximately $250 million modernizing the flat-rolled products plant at Trentwood, Washington, so that it can compete with the best — now and in the future; currently, we are rounding out that modernization with the installation of a new wide coil coating line and other supporting projects. In the rod/bar/wire business, we are constructing new manufacturing facilities at Macon, Georgia, and Jackson, Tennessee, to improve the service, quality, and economics of our finishing operations. And in forgings, we are adding a facility at Greenwood, South Carolina, so that we can penetrate further the automotive forgings market.



JOHN M. SEIDL, CHAIRMAN AND CHIEF EXECUTIVE OFFICER
A. STEPHENS HUTCHCRAFT, JR., PRESIDENT AND CHIEF OPERATING OFFICER

• A major priority during 1989 is to refinance debt. Kaiser Aluminum debt has been reduced to approximately $410 million as of February 28 from approximately $940 million at year-end 1987 — a reduction of about 56%. Separately, KaiserTech debt stands at $925 million. It is our plan to use cash from operations and from selected asset sales, together with existing cash balances, to reduce the separate debts of Kaiser Aluminum and KaiserTech to the point that they can be refinanced with new borrowings having more appropriate maturities and less restrictive covenants.

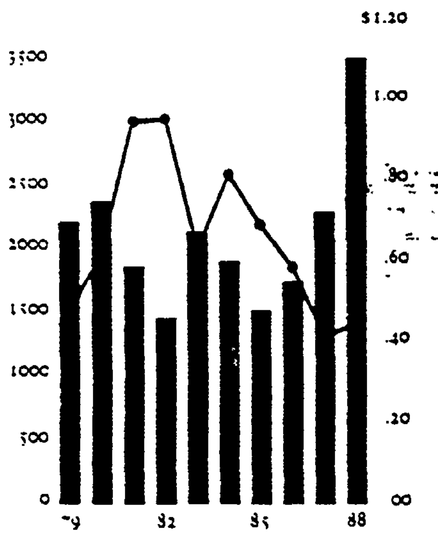
As we said at the beginning of this letter, 1988 was a year of significant achievements. We believe the current industry environment offers us an excellent opportunity to improve further our product quality and customer service, to strengthen further our operating efficiency, to increase further our share of markets that are key to our future, and to achieve superior returns on invested capital. Those are Kaiser Aluminum's goals, and they are the measures by which we stand ready to be judged.

John M. Seidl
Chairman and
Chief Executive Officer

A. Stephens Hutchcraft, Jr.
President and
Chief Operating Officer

March 10, 1989

Gains in the nation's real gross national product and industrial production, combined with a 38% jump in aluminum ingot and mill products exports and a 14% drop in imports, helped U.S. aluminum producers achieve an outstanding year in 1988. Total U.S. producer shipments increased to 7,397,714 tons, up slightly from the level of the prior year, which was 8% above total 1986 shipments. Primary aluminum production in the U.S. jumped 18% on a year-to-year basis as the industry's operating rate (annual tons produced divided by annual rated capacity) surged past 100%. It averaged 101% for all of 1988, compared with 88% in 1987. Even with the sharp gain in 1988 U.S. aluminum production, both producer and consumer inventories at the end of the year remained near the low levels of year-end 1987.



INGOT PRICES AND INVENTORIES
■ Average Yearly U.S. Midwest Market Price (price per pound)
■ IPAI Primary Inventories (000s metric tons)

The improvement in U.S. shipments during the year and increased foreign demand created an overall gain of 3% in western world aluminum consumption in 1988, compared with an increase of 5% in 1987. Western world primary production moved up 7% in 1988 as previously idle capacity was restarted and new capacity was brought on stream. The average operating rate for the western world industry was 97% in 1988, up from 93% in 1987, and the operating rate at year-end was 99%.

As a result of low inventory levels and strong demand, primary aluminum prices were significantly higher in 1988 after posting sharp gains in 1987. In 1988, the Midwest U.S. market price for ingot ranged from a low of $.88 per pound in January to a high of $1.30 in June. It closed at year-end 1988 at $1.[illegible] In 1987, the Midwest U.S. market price had increased from $.53 per pound in early January to a high of $.88 in both October and December.

KAISER OPERATIONS

Kaiser Aluminum was a full-fledged participant in the strong aluminum market in 1988. Shipments of primary and fabricated products rose to 764,580 metric tons as a result of greater primary aluminum production as well as the stronger overall demand for metal. This shipment total was 10% above 1987 shipments of 697,721 tons (after excluding 1987 shipments by Kaiser Aluminium Europe, a business sold in the fourth quarter of that year). Due to the improvement in 1988 ingot prices, increased production at Kaiser smelters, and lower internal primary metal needs, the percentage of shipments made in the form of ingot rose to 36% of the total from 16% in 1987.

Primary metal production by Kaiser Aluminum in 1988 reached 640,983 metric tons, for an average operating rate of 95.7%. This compares with output of 633,328 tons or 85% of annual capacity in 1987. At the end of the year, the company's worldwide primary aluminum production system was operating at 98.1% of its rated capacity.

Kaiser Aluminum serves its customers through six largely self-sufficient business units or divisions that operate on a decentralized basis. These are: raw materials, primary aluminum products, flat-rolled products, extruded products, rod/bar/wire, and forgings. A review of each follows.

RAW MATERIALS PRODUCTION CAPACITY

(Metric Tons)	Annual Rated Capacity Available to Kaiser Aluminum
Bauxite Mining	
Kaiser Jamaica Bauxite Company, Jamaica (49% owned)[1]	4,200,000
Alumina Partners of Jamaica (Alpart), Jamaica (50% owned)	1,200,000[2]
Total	5,400,000
Alumina Refining	
Gramercy, Louisiana	748,000
Alumina Partners of Jamaica (Alpart), Jamaica (50% owned)	500,000
Queensland Alumina Ltd., Australia (28.3% owned)	774,000
Total	2,022,000

(1) While Kaiser owns 49% of KJBC, it receives all of KJBC's output.
(2) Dedicated fully to the Alpart refinery.

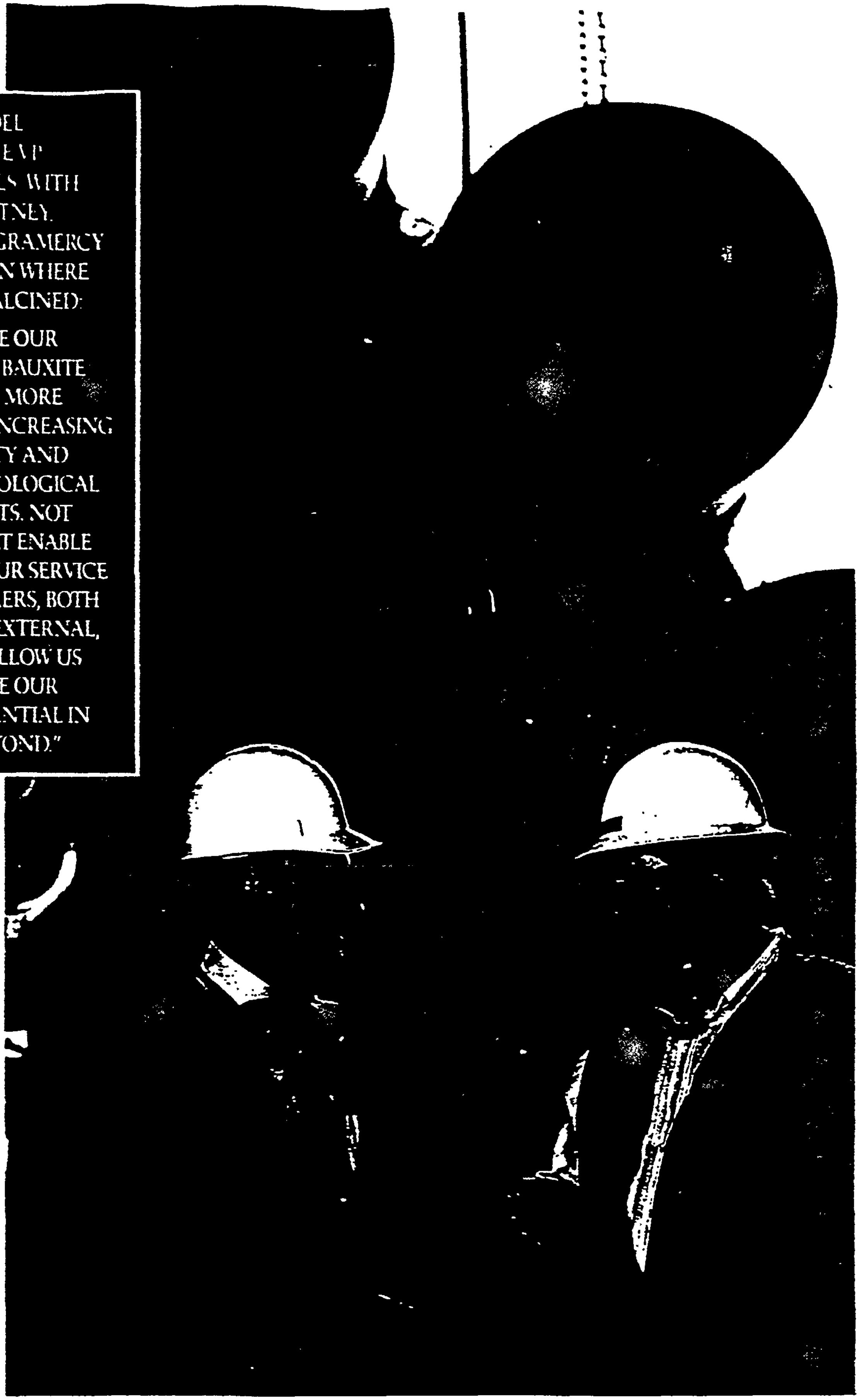
PRIMARY ALUMINUM PRODUCTION CAPACITY

(Metric Tons)[1]	Annual Rated Capacity Available to Kaiser Aluminum
Mead, Washington	200,000
Tacoma, Washington	73,000
U.S. Total	273,000
Volta Aluminium Co. Ltd. (Valco), Ghana (90% owned)	180,000
Anglesey Aluminium Ltd., Wales (49% owned)	55,000
Boyne Smelters Ltd., Australia (20% owned)	41,000
Aluminium Bahrain, Bahrain (17% owned)	29,000
Overseas Total	305,000
World Total	578,000

(1) A smelter at Ravenswood, West Virginia, was sold in February 1989 and, therefore, is not shown in this table.

JOE HAYDEL
CORPORATE VP
RAW MATERIALS WITH
BUDDY WHITNEY,
SUPERVISOR, AT GRAMERCY
PLANETARY KILN WHERE
ALUMINA IS CALCINED:

"WE'VE MADE OUR
ALUMINA AND BAUXITE
OPERATIONS MORE
COMPETITIVE BY INCREASING
PRODUCTIVITY AND
MAKING TECHNOLOGICAL
IMPROVEMENTS. NOT
ONLY DOES THAT ENABLE
US TO IMPROVE OUR SERVICE
TO OUR CUSTOMERS, BOTH
INTERNAL AND EXTERNAL,
IT ALSO WILL ALLOW US
TO MAXIMIZE OUR
EARNINGS POTENTIAL IN
1989 AND BEYOND."



Kaiser Aluminum's raw materials division mines bauxite, an aluminum-bearing ore, and then refines it into alumina, the intermediate material from which aluminum is made.

Strong worldwide alumina demand and prices, and significant improvements in productivity and plant process technology, combined to produce outstanding operational and financial results for the division in 1988.

The division participates in the international bauxite/alumina business through:

• 49%-owned Kaiser Jamaica Bauxite Company (KJBC), Kaiser's largest source of bauxite ore;

• A wholly owned alumina refinery at Gramercy, Louisiana, which obtains its bauxite from KJBC;

• 28.3%-owned Queensland Alumina Limited (QAL) in Australia, which refines Australian bauxite into alumina; and

• 50%-owned Alumina Partners of Jamaica (Alpart), which mines bauxite and refines it into alumina.

At KJBC, sales revenues and volumes increased in 1988, and employees achieved the milestone of three million work-hours without a lost-time accident. Production is expected to increase further, and the total volume of bauxite shipped by KJBC is expected to increase by about 15% in 1989.

Gramercy and QAL set production records in 1988, operating at better than 100% of their rated annual capacities. These facilities are expected to produce at even higher levels in 1989 to help supply the strong alumina market anticipated during the year.

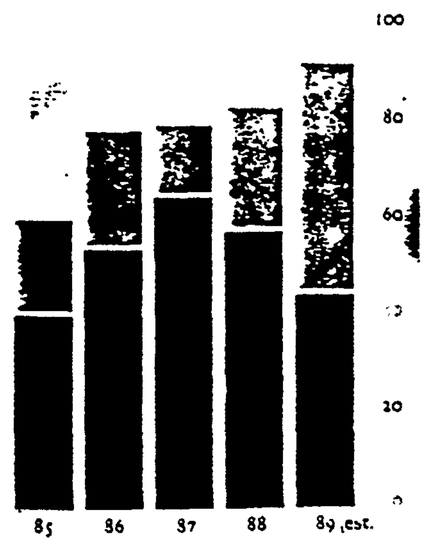
The bauxite mines and alumina refinery of Alpart, jointly owned with Reynolds Metals Company, are being prepared for a restart of operations in mid-1989.

Kaiser Aluminum and Hydro Aluminium a.s, a Norwegian company, have announced their intentions to purchase Reynolds' 50% share of Alpart. The purchase would result in Kaiser Aluminum having majority ownership in, and management responsibility for, Alpart.

Alpart's operations were suspended in 1985, largely due to low alumina prices. At that time, excellent progress was being made in reducing operating costs at Alpart, and Kaiser Aluminum intends to maximize the operation's potential to become a major competitive force in the merchant or open market. The refinery is expected to increase production to the 1,000,000-metric-ton-per-year rate in the third quarter of 1990.

Capital expenditures, which will rise in 1989, will be used to expand capacity at KJBC, Gramercy, and QAL over the next two years to maintain the facilities' high operating rates, implement further process technology improvements, satisfy safety and environmental control responsibilities, and refurbish production equipment at Alpart.

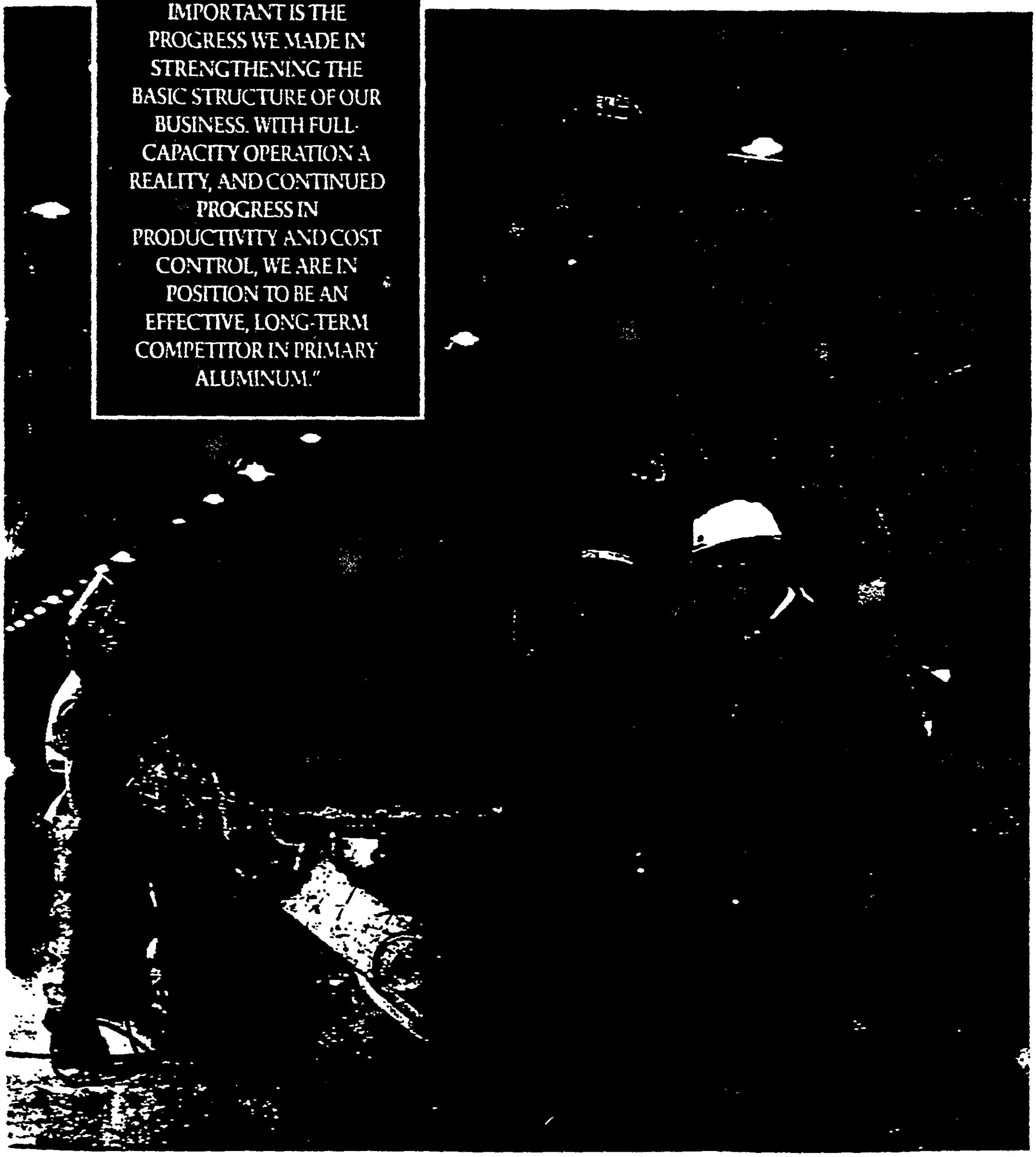
Up to now, the majority of the division's alumina has been consumed by Kaiser Aluminum smelters. Now, however, the division's strategy has shifted toward supplying more alumina to third parties. In 1989, for the first time, merchant market alumina sales are expected to exceed internal alumina transfers. Consequently, the division is rapidly evolving from an organization principally responsive to internal demands to one oriented to customer needs in the world alumina and bauxite markets.



ALUMINA—OPERATING RATE AND SALES
% of Rated Capacity Utilization*
External Sales
Internal Transfers
*Includes Kaiser Aluminum's share of Alpart's capacity.

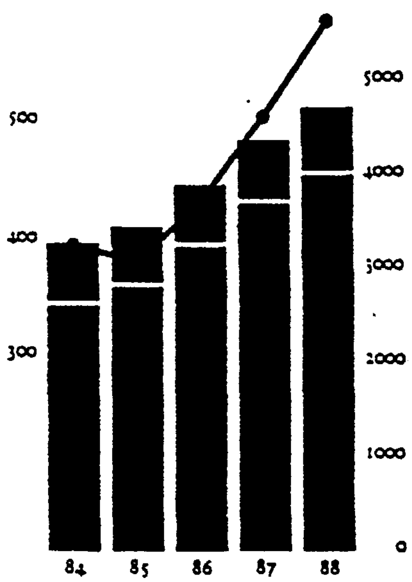
DICK HUMPHREY,
CORPORATE VP,
PRIMARY ALUMINUM, WITH
STAFF ENGINEER SUE STEJER
AND OPERATOR DOUG TARLIP
AT THE MEAD SMELTER:

"HIGH INGOT PRICES WERE A MAJOR FACTOR IN 1988 RECORD EARNINGS. EQUALLY IF NOT MORE IMPORTANT IS THE PROGRESS WE MADE IN STRENGTHENING THE BASIC STRUCTURE OF OUR BUSINESS. WITH FULL-CAPACITY OPERATION A REALITY, AND CONTINUED PROGRESS IN PRODUCTIVITY AND COST CONTROL, WE ARE IN POSITION TO BE AN EFFECTIVE, LONG-TERM COMPETITOR IN PRIMARY ALUMINUM."



The primary aluminum products division reduces alumina into primary aluminum metal for use by the company's fabricating plants and for sale to others.

1988 was an excellent year for primary aluminum products. Divisional financial results benefited from improvements in operating efficiency and all-time-high ingot prices. New highs were recorded in other areas as well. For example, employees at the Valco smelter in Ghana set a new industry standard for safety by working six million hours without a lost-time accident ...employees at Anglesey in Wales and Mead, Washington, established their highest monthly operating rates, and set energy efficiency records...Mead posted its best-ever safety record...and Anglesey produced its highest volume of value-added products. Responding to strong aluminum demand, the division operated at 95.7% of capacity, and metal output reached more than 640,000 metric tons. Of this total, more than 275,000 metric tons were sold to outside customers.



EMPLOYMENT AND PRODUCTION AT KAISER-MANAGED SMELTERS

■ Production in 000s Metric Tons

Employees

■ Hourly

■ Salaried

The high ingot prices of 1988 made Kaiser a relatively high-cost producer, because the cost of alumina and other raw materials rose with the upswing in aluminum prices, and some labor and power costs are indexed to ingot prices. But while the company experiences higher costs when ingot prices are high, it benefits from lower costs when ingot prices drop.

This ability to compete throughout aluminum price cycles means the division should be able to continue to operate its smelters at virtually full capacity in times of economic downturn.

To market this full production, the division is continuing to emphasize three key strategies:

• Selling more value-added products. For example, at Anglesey and Valco, virtually all capacity for billet is sold through 1989.

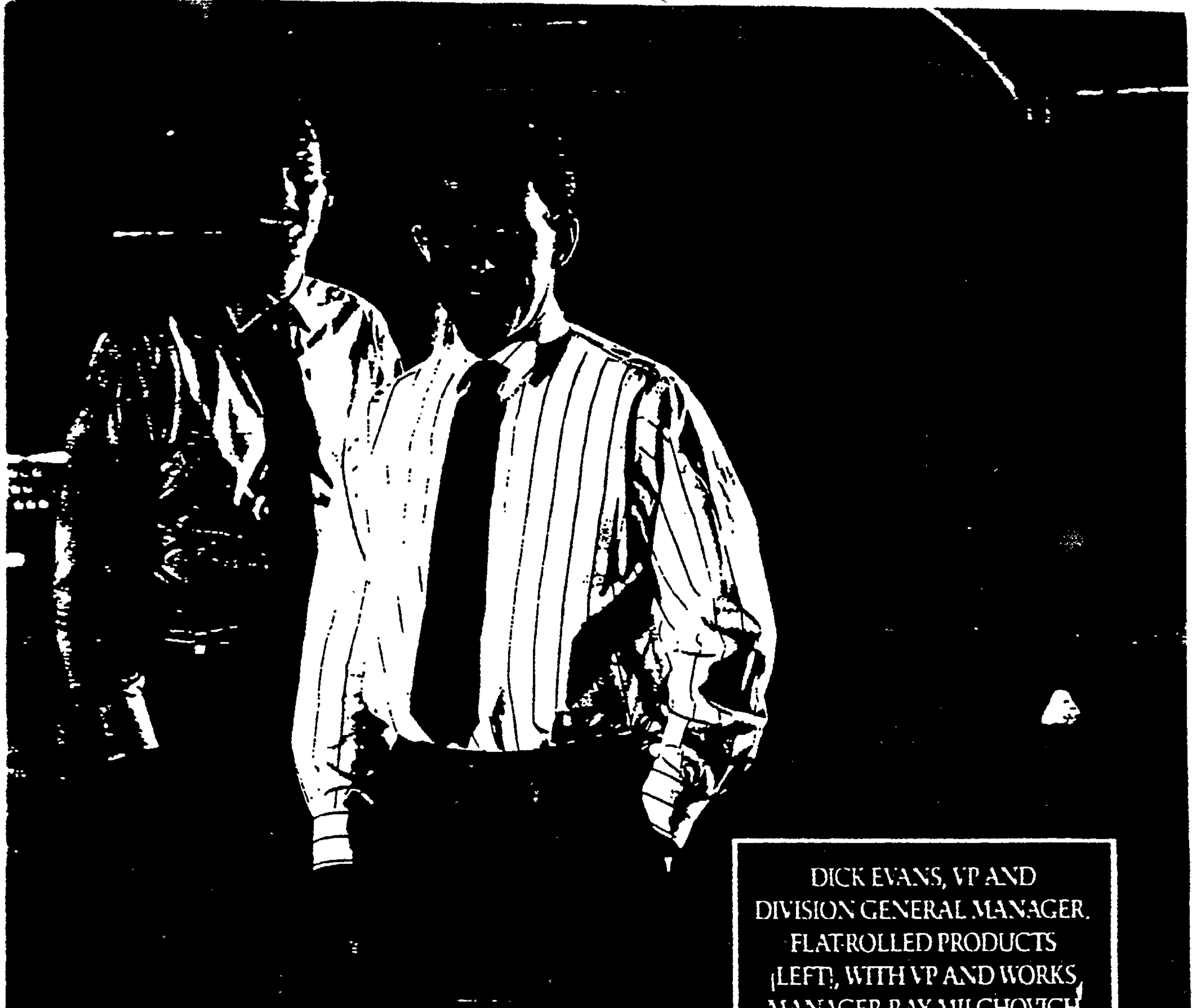
• Selling to a more diversified customer base, such as trade merchants, other aluminum producers, end-users, and the London Metal Exchange terminal market. In 1989, the division plans to market about 340,000 metric tons of metal to outside customers.

• Selling products forward—i.e., for future delivery—on a firm-price basis in order to manage the risk of a downturn in ingot prices. Approximately one-half of 1989 production available for sale to third parties has been pre-sold.

In technological advances, the division has perfected and installed retrofit technology in all the smelters it manages (Mead, Tacoma, Anglesey, and Valco). This technology—which includes the redesign of the cathodes and anodes that conduct electricity through reduction cells, improved "feed" systems that add alumina to the cells, and the computerized Celtrol® system that controls energy flow in the cells, resulting in more efficient energy use—allows Kaiser to compete with the industry's newer smelters.

The division licenses this technology and sells technical assistance to other producers around the globe, and expects to expand its technical sales effort in 1989.

The primary aluminum products group plans to spend about $25 million of capital in 1989. These expenditures will be aimed at improving process control systems and carrying out other projects to increase efficiency and productivity.



DICK EVANS, VP AND DIVISION GENERAL MANAGER, FLAT-ROLLED PRODUCTS (LEFT), WITH VP AND WORKS MANAGER RAY MILCHOVICH AT THE TRENTWOOD 5-STAND COLD MILL:

"WE ARE DETERMINED TO TAKE FULL ADVANTAGE OF OUR ADVANCED TECHNOLOGY, GEOGRAPHICAL LOCATION, AND SPECIALIZED PRODUCT MIX TO IMPROVE FURTHER OUR SALES AND SERVICE TO CUSTOMERS IN THE BEVERAGE CAN, AEROSPACE, TRANSPORTATION, AND INDUSTRIAL MARKETS."

The flat-rolled products division, the largest of Kaiser's fabricated products businesses, is focused on serving the needs of customers in three principal aluminum markets:

- Beverage containers, a growth market in the U.S. and overseas, especially in Asia;
- The aerospace sector, which is benefiting from increasing demand for commercial aircraft; and
- The tooling plate and common alloy coil segments of the distributor market, where usage is rising because of the high level of U.S. industrial activity.

The company's ability to serve these markets effectively has been greatly strengthened by the modernization and quality and service commitments made at its Trentwood, Washington, rolling mill.

The division's general marketing environment has been aided over the past two years by higher world demand for fabricated products and the depreciation of the U.S. dollar, which have contributed to a major increase in U.S. exports of flat-rolled products and decrease in imports. These trade developments, together with higher output and improved quality and costs at Trentwood, have substantially strengthened that mill's relative competitive position.

Management is aggressively pursuing a strategy to take full advantage of Trentwood's advanced technology, geographical location, and specialized product mix to improve further its sales and profit potential. Average price realizations on all products increased about 14% during 1988, despite only modest increases in beverage can stock, the division's single largest product line. Further increases in average prices are expected in 1989.

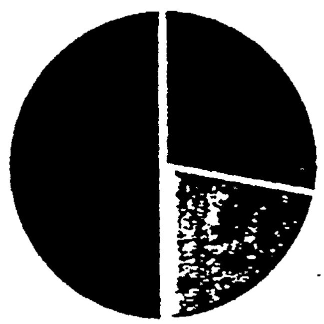
Trentwood's ability to manufacture products with superior gauge, flatness, shape, and metallurgical properties is the result of a five-year, $250 million capital spending program that has provided state-of-the-art hot and cold rolling equipment and improvements in operating methods.

The plant's capacity, product quality, and operating efficiency were strengthened in 1988 through the installation of fully computerized equipment that simultaneously scalps the face and sides of an ingot to produce a mirror-like surface. The new equipment is allowing the plant to cast and process an increased number of wider, longer, and thicker ingots.

In 1988, Trentwood's production volume rose for the fourth consecutive year. Employees made progress in lowering costs and strengthening product quality, customer service, and product mix.

The single largest capital project currently under way at Trentwood is the installation of a $30 million, high-speed, wide-coil coating line to accommodate the can industry's move to expand production of lids from wide coated coils. Scheduled for completion in mid-1990, the new line and its related handling equipment will ensure Trentwood's capability to produce a full range of highly competitive can end stock materials. New projects currently being engineered for 1989-91 installation include modernization of equipment for producing heat-treat products.

The flat-rolled products capital spending and marketing strategies are supported by the division's advanced research and development activities conducted at the Center for Technology (CFT) in Pleasanton, California. Personnel at CFT use their scientific and technological skills to enhance the company's competitive position in the important can stock and aerospace markets. This is accomplished by developing and ensuring the practical implementation of improvements in plant process technology that lower production costs and/or strengthen product quality, and by working with operating and sales personnel to enhance existing products and develop new ones.



TRENTWOOD MARKET SEGMENTS – 1988
BY REVENUES

- Can Stock 50%
- ATI* Heat Treat 28%
- ATI* Common Alloy 22%

*Products for the Aerospace, Transportation, and Industrial markets

The extruded products division operates soft alloy extrusion facilities in Los Angeles, California; Sherman, Texas; and Toronto, Canada; and a cathodic protection business located in Tulsa, Oklahoma, that also extrudes both aluminum and magnesium. All facilities have fabricating capabilities and finishing operations.

The division's major markets are transportation, to which it provides extruded shapes for use in building trucks, trailers, and shipping containers; durable goods; defense; and building/construction. It serves these markets directly and through distributors.

Because of the regional nature of the industry, each of the extruded products division's businesses operates on a semi-autonomous basis, seeking to develop additional niche markets having special tolerance and value-added fabricating requirements. Metal procurement, technology, and marketing efforts are shared by the businesses, all of which operate under the name of Kaiser Aluminum Extruded Products.

The rapidly rising cost of billet during 1988 created situations that were favorable to long-term sales agreements, and the division entered into several such arrangements.

During 1988, extruded products acquired a plating facility and a painting business in Toronto to complement the existing Toronto extrusion plant. In Sherman, a new remelt facility was successfully brought on line and a mill distribution system to support the service center industry was established. The addition of a remelt and casting operation at Sherman, which allows the plant to supply its own billet requirements and to sell billet on the open market, represents significant progress toward the division's efforts to enhance its capabilities to serve the product and service demands of its customers. In addition, it allows the use of remelted scrap instead of new metal, thus lowering production costs.

For 1989, the Los Angeles plant is studying installation of its own remelt and casting facility, as well as expansion of its press capability.

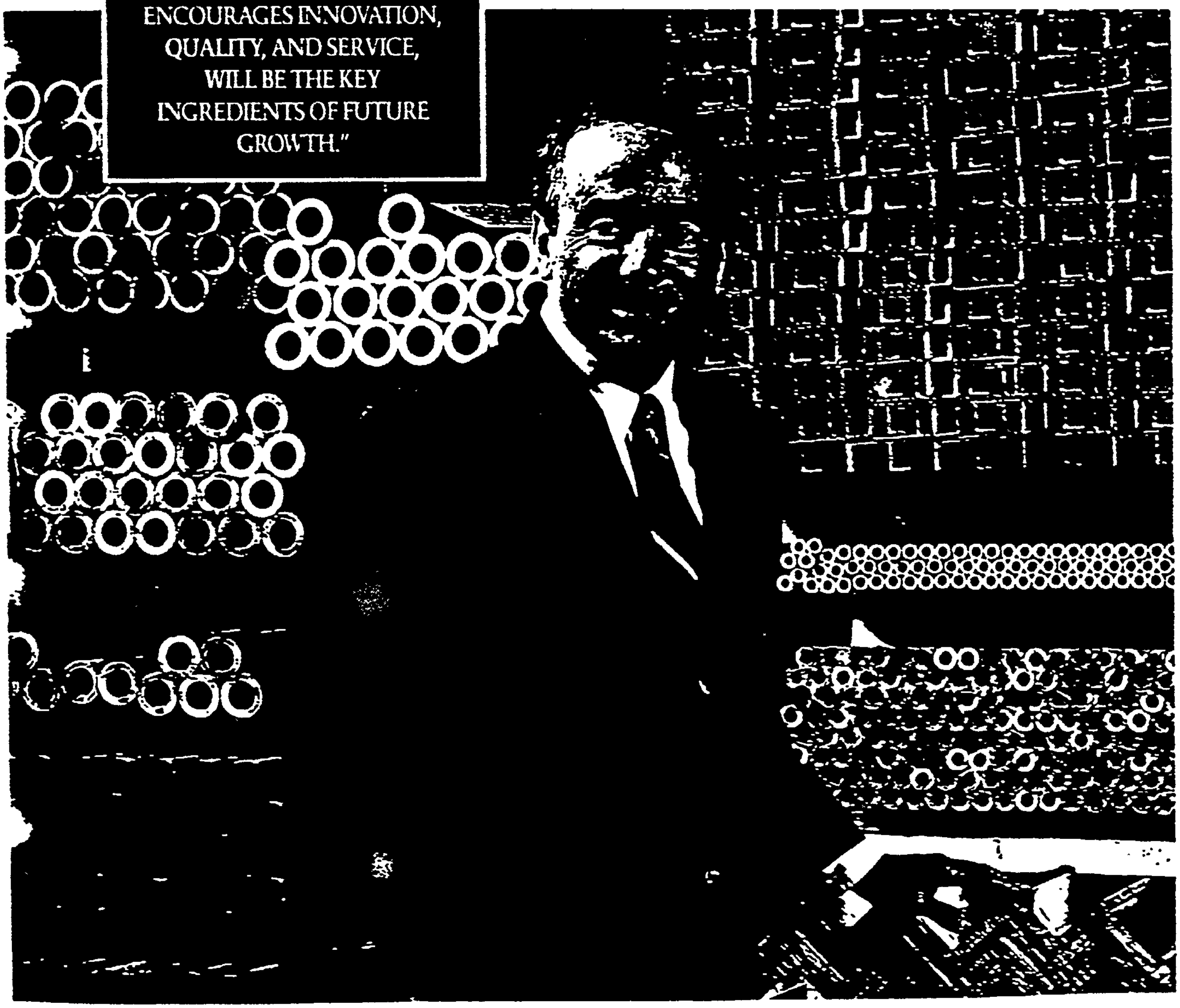
The extruded products division's strategy for the future is one of value-added growth and creation of new regional businesses.

MARKETS SERVED—1988—BY VOLUME

- Transportation 43%
- Distribution 15%
- Export 10%
- Building/Construction 9%
- Other 23%

JIM OWEN, VP,
EXTRUDED PRODUCTS,
AT THE LOS ANGELES
PLANT:

"OUR VISION OF THE FUTURE IS ONE OF GROWTH —BOTH VALUE-ADDED GROWTH, AND NEW REGIONAL BUSINESSES. THE PURSUIT OF A NICHE MARKETING STRATEGY, COMBINED WITH AN ORGANIZATIONAL CULTURE THAT ENCOURAGES INNOVATION, QUALITY, AND SERVICE, WILL BE THE KEY INGREDIENTS OF FUTURE GROWTH."



ED COYNE, VP,
ROD, BAR, AND WIRE
(RIGHT), WITH PLANT MANAGER
JACK O'DELL AT
THE NEW MACON FACILITY:

"1988 WAS A
TURNING POINT:
WE BEGAN A $28 MILLION
SPENDING PROGRAM TO
INSTALL STATE-OF-THE-ART
CAPABILITY AT NEW
PLANTS IN MACON AND
JACKSON.
THIS WILL BUILD ON
STRENGTHS AT NEWARK,
REDUCE COSTS, IMPROVE
THE QUALITY OF
PRODUCTS WE SELL TO
OUR CUSTOMERS
AND THE SERVICE WE
OFFER THEM, AND
INCREASE CAPACITY BY 25%.
1989 WILL BE OUR
'YEAR OF TRANSITION' TO
MORE FOCUSED OPERATIONS
IN A MULTI-PLANT
ENVIRONMENT."

The rod, bar, and wire (RBW) division, which is based in Newark, Ohio, is the second largest manufacturer of aluminum rod, bar, and wire products in the U.S. Its product mix consists of screw machine stock, redraw rod, forging stock, and coiled wire products. These products are sold to customers in the consumer durables, transportation, aerospace, ordnance, and other markets.

In 1988, RBW began a $27.5 million capital spending program that carries forward a business strategy of:

• Simplifying and focusing manufacturing operations;

• Lowering production costs;

• Increasing capacity by about 25%; and

• Improving product quality and customer service.

As part of this market-driven strategy, several product finishing operations are being expanded and relocated into new state-of-the-art facilities at Macon, Georgia, and Jackson, Tennessee. At Macon, for example, equipment will range from a computerized tensile tester for checking product quality to an automated wire processing line that combines drawing, straightening, burnishing, cutting, and packaging into a single, continuous operation.

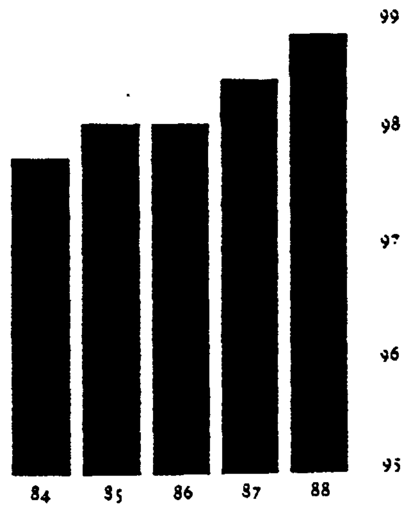
The Newark facility operated near capacity in 1988 and expects continued strong demand for its principal products in 1989. Newark will continue to operate its modern remelt facilities, its 10-inch mill, and its 6600-ton indirect extrusion press — the largest indirect press in the U.S. In 1988, Newark's capability was upgraded to produce forging stock with a diameter of up to 23 inches in order to meet customers' requirements for this larger size. The product mix at Newark will be simplified to match competitive strengths in billet, forging stock, and hard-alloy redraw rod. Newark also will supply raw materials to Macon and Jackson, as well as to the company's forging plants in Erie, Pennsylvania, and Oxnard, California.

Macon and Jackson each will focus on a single product line, targeted to specific customer needs, in order to improve the service, quality, and economics of finishing operations.

The Macon facility, called Georgia Wire Products, will be dedicated to producing coiled wire products, including weld wire and screw machine stock wire products, for a variety of end uses ranging from fasteners to zippers to cable TV coaxial cables. Production of both coiled wire and screw machine wire is expected to be fully operational in mid-1989.

The Jackson facility, named Tennalum, will concentrate on manufacturing screw machine stock and other extruded rod and bar products for customers in the automotive, aerospace, electronics, consumer durables, and ordnance markets. It should begin operations in 1989 and be finishing all of the division's screw machine stock rod and bar products in 1990.

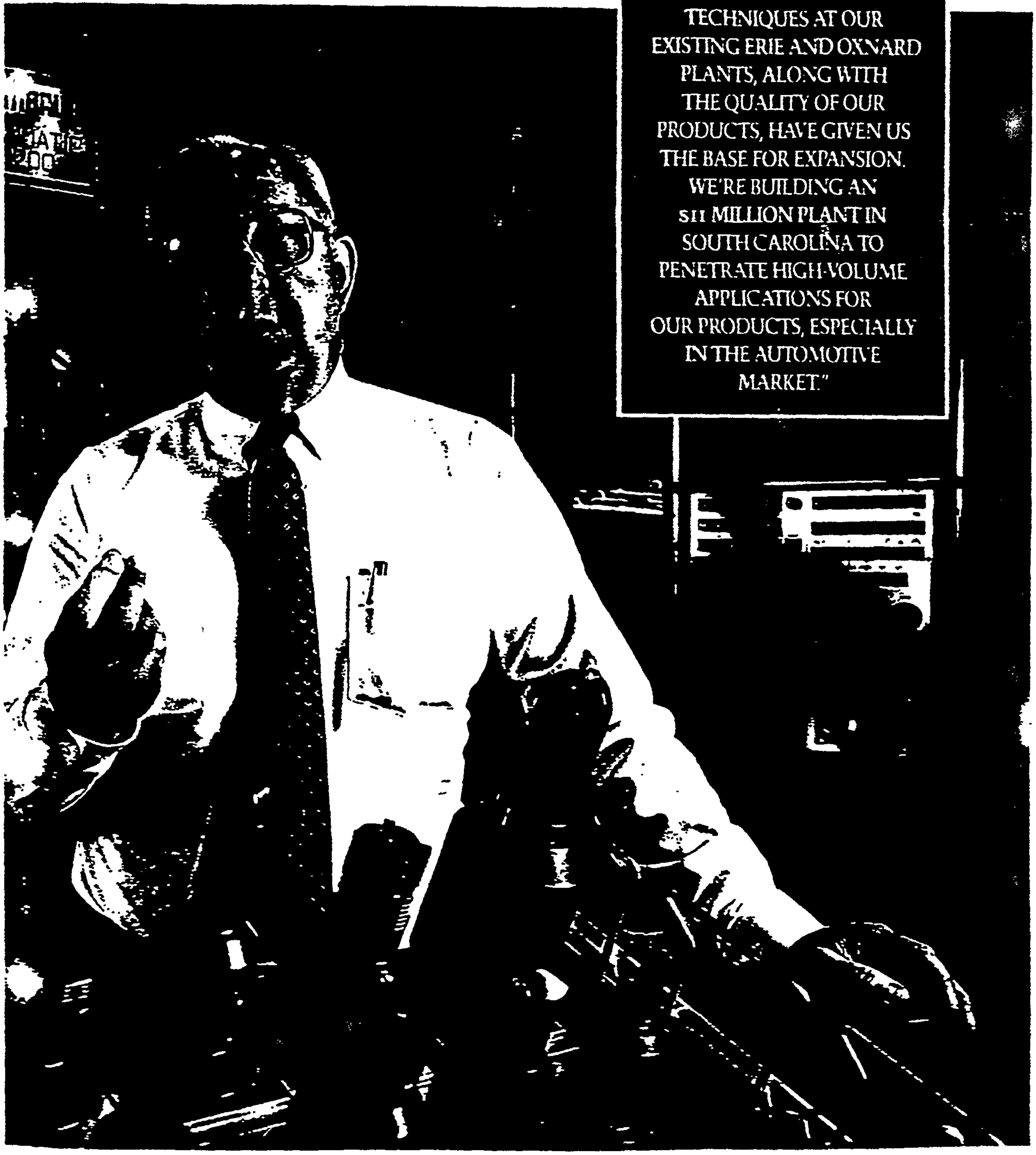
1989 will be a year of transition to simplified and focused manufacturing operations in a multi-plant environment. To assure customers of a continued high level of product quality and service during the transition to the new facilities, dual or duplicative operational capability is generally being maintained at Newark until the new facilities have proven their ability to meet fully their customers' quality and service requirements.



QUALITY AS MEASURED BY CLAIM-FREE PERFORMANCE
% of Orders Shipped

JOE BERNAT, VP, FORGINGS, AT ERIE, WHERE THIS COMPUTER AIDED DESIGN AND MANUFACTURING (CAD-CAM) SYSTEM IS USED TO MAKE DIES FOR AEROSPACE PARTS, WHEELS, AND MORE:

"EFFICIENT PRODUCTION TECHNIQUES AT OUR EXISTING ERIE AND OXNARD PLANTS, ALONG WITH THE QUALITY OF OUR PRODUCTS, HAVE GIVEN US THE BASE FOR EXPANSION. WE'RE BUILDING AN $11 MILLION PLANT IN SOUTH CAROLINA TO PENETRATE HIGH-VOLUME APPLICATIONS FOR OUR PRODUCTS, ESPECIALLY IN THE AUTOMOTIVE MARKET."



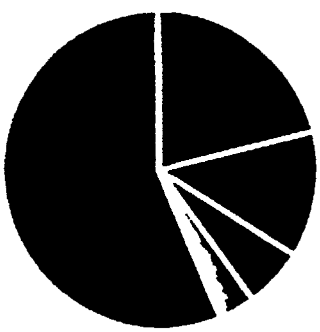
The forging division operates production facilities at Erie, Pennsylvania, and Oxnard, California, and is adding an $11 million facility at Greenwood, South Carolina. The division's strategy is to continue to grow as a major supplier of high-quality forged parts to customers in the transportation, aerospace, ordnance, machinery and equipment, and marine markets.

The high strength-to-weight advantages of forged aluminum parts, as well as efficient production techniques and improved quality measures, have enabled the division to expand and penetrate high-volume market applications for its products.

Both the Erie and Oxnard plants have expanded their capabilities and product lines in response to specific customer needs. The Erie plant, for example, is using its computer-aided design and manufacturing (CAD-CAM) systems to design and produce dies for structural aerospace parts, for automotive and truck parts, and for complex parts for the ordnance market.

The Oxnard plant is the primary supplier of machined and assembled forged aluminum hubs sold to the major truck manufacturers in the U.S. and Canada. Its increased availabilities and strategic Southern California location have also established Oxnard as a significant supplier of hand forgings to the aerospace market. Another important customer is the medical technology market. One example of such products is the forged rotor of a centrifuge, a piece of equipment widely used by hospitals and medical/scientific research facilities to test blood samples by spinning them at high speeds, thus separating blood components.

Heavy emphasis on federally mandated automotive safety equipment, as well as the continuing need for strong, lightweight parts that result in fuel savings, have provided the forging business unit with additional opportunities to increase its participation in the automotive market. Recognizing that a low-cost, focused facility would be required to serve customers in this market, the division is building the new plant at Greenwood. It is scheduled to be in operation in the second half of 1989.



MARKET SEGMENTS—1989 (EST.)
BY REVENUES

- Commercial Transportation
- Aerospace
- Ordnance
- Machinery and Equipment
- Marine

FINANCIAL RESULTS
1988

On October 28, 1988, a subsidiary of MAXXAM Inc. acquired Kaiser-Tech Limited and its operating subsidiary Kaiser Aluminum & Chemical Corporation. The acquisition has been recorded as a purchase with Kaiser Aluminum financial results reported for the ten months ended October 31, 1988 (Predecessor) and for the two months ended December 31, 1988 (Successor).

During the first ten months of 1988, production and shipments increased significantly from 1987 levels. While raw material, energy, and labor costs increased during this period, Kaiser Aluminum realized higher prices both for primary metal and for fabricated products. These factors and the effects of process improvements and cost reduction programs at the plants, coupled with savings in overhead and administrative expenses and lower interest expense, resulted in income from continuing operations of $144.7 million and net income of $175.7 million for the ten-month period. Net income included a loss from discontinued operations of $5.0 million (see Note 4) and an extraordinary income tax benefit of $36.0 million (see Note 12).

In accounting for the purchase, Successor recorded the assets and liabilities of Predecessor at estimated fair values. Inventories were adjusted to fair market values and investments in plant and equipment were adjusted also (see Note 2). At the same time, Successor adopted the last-in, first-out (LIFO) method for financial reporting purposes for valuing substantially all product inventories.

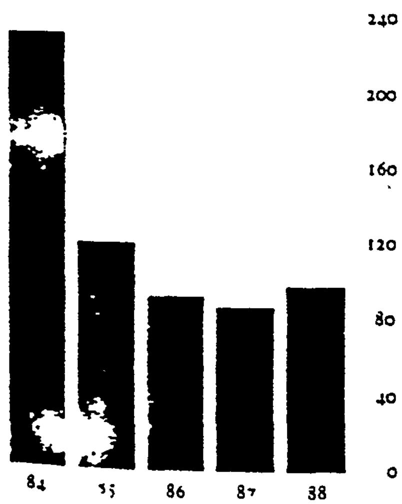
Kaiser Aluminum continued to experience favorable results from operations during November and December. Minor effects on the income statement which were caused by purchase accounting adjustments to asset values tended to be offsetting. For the two-month period, Successor reported net income of $28.1 million. These earnings excluded the operating results attributable to all assets reclassified in the purchase transaction as assets held for sale (see Note 4). The principal assets reclassified were the smelter and rolling mill in Ravenswood, West Virginia, which have been sold subsequently.

In 1988, Kaiser Aluminum adopted the provisions of Financial Accounting Standard No. 94, which requires full consolidation of all majority-owned subsidiaries (see Note 3). Previously, the Company did not consolidate subsidiaries that were less than wholly owned. The 1987 financial statements and the 1986 balance sheet have been restated.

86 and 1987

Loss provisions including asset write-downs were the primary cause of the net losses incurred by Kaiser Aluminum during 1986 and 1987. Operating losses from aluminum activities (before loss provisions) were a contributing factor in the . loss experienced in 1986, but were not significant in 1987.

The net loss in 1986 was $32.7 million. Results from continuing operations before taxes included a loss of $59.4 million associated with the write-down of oil and gas reserves which have been sold subsequently, a gain of $16.9 million from the sale of part of the Kaiser Aluminum interest in Anglesey Aluminium Limited, and a gain of $19.5 million resulting from the cancellation of a long-term natural gas supply contract. Kaiser Aluminum recorded a gain from discontinued operations of $45.2 million, primarily from the disposition of a real estate business and the adoption of certain provisions of Financial Accounting Standards 87 and 88 relating to employer accounting for defined benefit pension plans. The operating loss of $94.2 million (excluding the write-down of oil and gas reserves) occurred principally because of low prices throughout the aluminum industry.



CAPITAL SPENDING
(in millions of dollars)

The net loss in 1987 was $354.9 million. The losses from continuing operations before taxes included loss provisions of $366.1 million, principally attributable to the electrical products manufacturing business, idle and uneconomic primary aluminum production capacity, and oil and gas properties, most of which have been sold subsequently. In addition, the financial results included a gain before taxes of $68.8 million from the sale of Kaiser Aluminium Europe Incorporated and the sale of a food service packaging business. The operating income of $3.3 million in 1987 (excluding the $366.1 million restructuring provision and the $68.8 million gain from asset sales) was a substantial improvement over the loss of $94.2 million in 1986 due to several factors. Process improvements and cost reduction programs as well as savings in overhead and administrative expenses contributed substantially. Shipment volume from the remaining production facilities improved and primary aluminum prices increased sharply.

In all three years, depreciation based upon replacement cost would have been higher than depreciation based upon acquisition cost of the assets.

CAPITAL SPENDING

Most of the $277.0 million in capital spending during the past three years has been to improve efficiency and expand capacity. One of these projects was the installation of equipment at the Trentwood rolling mill in Spokane, Washington, to allow the plant to cast significantly larger ingots from which important flat-rolled products are made; another involved initial spending for a new, high-speed, wide-coil coating line at the same facility. Portions of the Mead, Washington, smelter were modernized, lowering operating costs and improving the plant environment. In addition, a program to convert to large, energy-saving anodes began at the Valco smelter in Ghana.

Last year, spending was authorized to build three new production facilities. The rod, bar, and wire division is expanding in Macon, Georgia, and Jackson, Tennessee, and the forging division is expanding in Greenwood, South Carolina. These plants are expected to be completed during 1989.

FINANCIAL POSITION

During 1988, Kaiser Aluminum used cash from operations and from asset sales to reduce debt by $334.6 million to $606.2 million on December 31. This total included $506.4 million outstanding under a 1986 credit agreement with a group of banks and $99.8 million in other debt and lease obligations. The credit agreement with the banks includes a term loan that matures at year-end 1992 and a $165.0 million revolving credit facility that expires at year-end 1989. No borrowings were outstanding under the revolving credit facility at the end of 1988. Cash and equivalents as of December 31, 1988, were $209.5. Cash flow from operations is expected to be sufficient to meet planned capital expenditure requirements and scheduled debt repayments.

Historically, Kaiser Aluminum has participated in several offshore joint ventures. As of December 31, 1988, debt obligations of affiliates for which the Company is responsible and which were not recorded on the balance sheet amounted to $257.6 million.

SUMMARY OF REVENUES AND INCOME

Kaiser Aluminum & Chemical Corporation and Subsidiary Companies

millions of dollars	Successor	Predecessor				
	Two Months Ended December 31, 1988	Ten Months Ended October 31, 1988	Years Ended December 31, 1987[1]	1986	1985	1984
REVENUES:						
Net sales—aluminum						
Primary	$110.0	$ 472.7	$ 206.7	$ 93.3	$ 44.3	$ 219.4
Fabricated	152.3	1,317.1	1,679.8	1,765.4	1,608.0	1,629.3
Other	35.8	131.6	116.4	108.4	121.7	87.0
Total net sales	298.1	1,921.4	2,002.9	1,967.1	1,774.0	1,935.7
Other	11.4	46.3	94.8[2]	68.7[3]	62.3	32.4
Total revenues	$309.5	$1,967.7	$ 2,097.7	$ 2,035.8	$ 1,836.3	$ 1,968.1
Income (loss) from continuing operations before income taxes and minority interests	$ 47.5	$ 252.7	$ (294.0)[4]	$ (120.9)[5]	$ (364.0)[6]	$ (212.2)
Provision (credit) for income taxes	18.3	102.4	46.8	(43.0)	(165.7)	(150.0)
Income (loss) from continuing operations before minority interests	29.2	150.3	(340.8)	(77.9)	(198.3)	(62.2)
Minority interests	(1.1)	(5.6)	(2.7)			
Income (loss) from continuing operations	28.1	144.7	(343.5)	(77.9)	(198.3)	(62.2)
Discontinued operations — net of income taxes:[7]						
Income from operations		5.9	11.7	26.1[3]	16.8[6]	25.5
Income (loss) on dispositions		(10.9)	(23.1)[8]	19.1	(5.0)	(60.7)
Income (loss) from discontinued operations		(5.0)	(11.4)	45.2	11.8	(35.2)
Income (loss) before extraordinary item	28.1	139.7	(354.9)	(32.7)	(186.5)	(97.4)
Extraordinary income — tax benefit[9]		36.0				
Net income (loss)	$ 28.1	$ 175.7	$ (354.9)	$ (32.7)	$ (186.5)	$ (97.4)

(1) Restated for the adoption of Financial Accounting Standard (FAS) No. 94 requiring full consolidation of majority-owned subsidiaries.

(2) Includes gains of $16.1 from the sale of the food service packaging business and $52.7 from the sale of Kaiser Aluminium Europe Incorporated.

(3) Includes a gain of $20.2 from adoption of FAS Nos. 87 and 88 relating to employer accounting for pension plans, $1.7 in other revenues and $18.5 in discontinued operations. Also includes $32.5 from cancellation of a long-term gas supply contract, $19.5 in other revenues and $13.0 in discontinued operations.

(4) Includes a loss provision of $366.1 for restructuring of operations consisting principally of write-downs of the electrical products manufacturing business and idle and uneconomic primary aluminum production capacity, and provision for the loss upon disposition of oil and gas properties.

(5) Includes a write-down of oil and gas reserves of $59.4.

(6) Includes write-downs of the Baton Rouge, Louisiana, alumina refinery, as well as several smaller assets, totaling $211.0 and $9.8 in other costs and expenses and income from discontinued operations, respectively.

(7) Discontinued operations consist of the agricultural chemicals, refractories, trading, real estate, and industrial and specialty chemicals divisions.

(8) Includes a loss provision of $33.9 related to certain operations and businesses that were discontinued in recent years.

(9) The extraordinary tax benefit results from utilization of net operating loss carryforwards by domestic operations.

CONSOLIDATED BALANCE SHEETS, DECEMBER 31, 1988 AND 1987

Kaiser Aluminum & Chemical Corporation and Subsidiary Companies

(millions of dollars)	Successor 1988	Predecessor 1987
ASSETS		
Current assets:		
Cash and cash equivalents	$ 209.5	$ 131.7
Receivables:		
Trade (less allowance for doubtful receivables: $7.6 in 1988 and $7.2 in 1987)	264.4	230.2
Other	56.9	80.7
Inventories	451.4	479.9
Prepaid expenses	4.3	20.5
Assets held for sale	336.6	
Current assets of discontinued operations — net		44.6
Total current assets	1,323.1	987.6
Investments and advances — related parties	353.5	204.4
Property, plant, and equipment — net	668.9	950.5
Noncurrent assets of discontinued operations — net		292.3
Other assets	58.7	111.9
Total	$2,404.2	$2,546.7
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 151.0	$ 151.0
Accrued wages, interest, and other liabilities	200.3	202.2
Income taxes payable	59.6	36.7
Payable to affiliates	177.6	133.9
Long-term debt — current portion	117.0	53.5
Total current liabilities	705.5	577.3
Long-term liabilities	188.2	160.3
Long-term debt	489.2	887.3
Deferred income taxes		65.6
Deferred income		45.7
Minority interests	12.0	11.4
Redeemable preference stock — aggregate liquidation value of $130.4 at December 31, 1988	62.1	38.9
Stockholders' equity:		
Preference stock — cumulative and convertible, par value $100, authorized 1,000,000 shares; issued: 103,314 shares in 1988 and 112,532 shares in 1987	7.8	11.2
Preference stock — cumulative and convertible, par value $1, stated value $50, authorized 10,000,000 shares; issued: 600,000 shares (aggregate liquidation value of $30.0 at December 31, 1988)	.6	.6
Common stock, par value 33 1/3 cents, authorized 100,000,000 shares; issued: 44,899,320 shares in 1988 and 1987	15.0	15.0
Additional capital	897.4	351.6
Currency translation adjustment		5.2
Retained earnings	26.4	376.6
Total stockholders' equity	947.2	760.2
Total	$2,404.2	$2,546.7

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

STATEMENTS OF CONSOLIDATED INCOME

Kaiser Aluminum & Chemical Corporation and Subsidiary Companies

	Successor	Predecessor		
(millions of dollars)	Two Months Ended December 31, 1988	Ten Months Ended October 31, 1988	Year Ended December 31, 1987	Year Ended December 31, 1986
REVENUES:				
Net sales	$298.1	$1,921.4	$2,002.9	$1,967.1
Other	11.4	46.3	94.8	68.7
Total revenues	309.5	1,967.7	2,097.7	2,035.8
COSTS AND EXPENSES:				
Cost of products sold	226.7	1,462.4	1,692.7	1,715.2
Depreciation	7.7	69.6	97.7	106.6
Selling, administrative, research and development, and general	14.6	89.7	114.3	128.5
Interest	8.2	69.6	106.1	127.5
Other	4.8	23.7	14.8	78.9
Restructuring of operations			366.1	
Total costs and expenses	262.0	1,715.0	2,391.7	2,156.7
Income (loss) from continuing operations before income taxes and minority interests	47.5	252.7	(294.0)	(120.9)
Provision (credit) for income taxes	18.3	102.4	46.8	(43.0)
Income (loss) from continuing operations before minority interests	29.2	150.3	(340.8)	(77.9)
Minority interests	(1.1)	(5.6)	(2.7)	
Income (loss) from continuing operations	28.1	144.7	(343.5)	(77.9)
Discontinued operations — net of income taxes:				
Income (loss) from operations		5.9	11.7	26.1
Income (loss) on dispositions		(10.9)	(23.1)	19.1
Income (loss) from discontinued operations		(5.0)	(11.4)	45.2
Income (loss) before extraordinary item	28.1	139.7	(354.9)	(32.7)
Extraordinary income — tax benefit		36.0		
Net income (loss)	$ 28.1	$ 175.7	$ (354.9)	$ (32.7)

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

STATEMENTS OF CONSOLIDATED CASH FLOWS

Kaiser Aluminum & Chemical Corporation and Subsidiary Companies

(millions of dollars)	Successor: Two Months Ended December 31, 1988	Predecessor: Ten Months Ended October 31, 1988	Predecessor: Year Ended December 31, 1987
OPERATING ACTIVITIES:			
Net income (loss)	$ 28.1	$ 175.7	$(354.9)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation	7.7	69.6	97.7
Deferred income taxes	(.1)	(1.4)	6.9
Net (gain) loss on asset dispositions and write-downs		(6.3)	350.8
Equity income, net of dividends received	12.6	(44.6)	(15.9)
Exchange loss	1.2	4.6	4.6
Increase in redeemable preference stock		8.0	11.8
Increase in minority interests	1.0	5.6	2.4
Changes in:			
Receivables	17.0	(37.0)	29.7
Inventories	(5.7)	(86.7)	172.6
Other assets	11.6	(6.0)	(61.0)
Accounts payable and accrued liabilities	9.6	28.5	(13.0)
Income taxes payable	12.5	20.3	(6.7)
Other liabilities	(8.8)	48.5	75.1
Net cash provided by operating activities	86.7	178.8	300.1
INVESTING ACTIVITIES:			
Proceeds from disposition of property and investments	20.4	236.5	220.6
Redemption fund for preference stock	.1	7.2	(4.3)
Capital expenditures	(13.5)	(82.1)	(86.7)
Net cash provided by investing activities	7.0	161.6	129.6
FINANCING ACTIVITIES:			
Repayments of long-term debt and notes payable	(28.3)	(293.8)	(474.9)
Dividends paid		(29.1)	(4.1)
Contributed capital		6.4	25.0
Long-term borrowings			47.2
Capital stock issued			.7
Redemption of preference stock	(.1)	(11.5)	
Net cash used by financing activities	(28.4)	(328.0)	(406.1)
Effect of exchange rate changes on cash		.1	.6
Net increase in cash and cash equivalents	65.3	12.5	24.2
Cash and cash equivalents at beginning of period	144.2	131.7	107.5
Cash and cash equivalents at end of period	$209.5	$ 144.2	$ 131.7
OTHER CASH FLOW INFORMATION:			
Interest paid (net of amount capitalized)	$ 7.4	$ 76.3	$ 117.2
Income taxes paid	3.2	52.9	42.3

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

(millions of dollars)	Predecessor Year Ended December 31, 1986
RESOURCES WERE PROVIDED BY:	
Continuing operations:	
Loss from continuing operations	$ (77.9)
Expenses (income) not involving funds:	
Depreciation	106.6
Deferred income taxes	(37.6)
Equity in undistributed earnings of companies not consolidated	1.9
Redeemable preference stock	9.2
Net loss on asset dispositions and write-downs	40.8
Provided by continuing operations	43.0
Long-term borrowings	108.0
Extension of long-term borrowings	120.0
Capital stock issued (net of expenses)	8.2
Proceeds from disposition of property and investments	152.5
Early collection of long-term note	30.0
Other	(46.3)
Total	$ 415.4
RESOURCES WERE USED FOR:	
Property, plant, and equipment	$ 93.1
Reduction of long-term debt	279.2
Discontinued operations — net	(24.4)
Capital stock of subsidiaries purchased from retirement plans	14.7
Dividends	3.7
Currency translation adjustment	(30.5)
Deferred financing costs	11.6
Increase in working capital	68.0
Total	$ 415.4
INCREASE (DECREASE) IN WORKING CAPITAL — BY COMPONENT:	
Cash and cash equivalents	$ (.6)
Receivables	39.6
Inventories	42.4
Prepaid expenses	3.4
Current assets of discontinued operations — net	(27.8)
Accounts payable and accrued liabilities	(51.9)
Income taxes payable	(15.3)
Payable to affiliates	(1.6)
Notes payable	65.8
Long-term debt — current portion	14.0
Total	$ 68.0

The accompanying notes to financial statements are an integral part of this statement.

1. THE MERGER

On October 27, 1988, the stockholders of KaiserTech Limited ("KaiserTech") approved and adopted an Amended and Restated Agreement and Plan of Merger, dated as of May 22, 1988, by and among MAXXAM Group Inc. ("MAXXAM"), KaiserTech Acquisition Corporation ("KaiserTech Acquisition"), and KaiserTech providing for the merger (the "Merger") of KaiserTech Acquisition with and into KaiserTech. Kaiser Aluminum & Chemical Corporation is a subsidiary of KaiserTech and is referred to as "Predecessor" prior to the Merger and "Successor" after the Merger. Predecessor and Successor are also referred to collectively as "Kaiser Aluminum" or the "Company." MAXXAM is a wholly owned subsidiary of MAXXAM Inc.

The acquisition of KaiserTech by MAXXAM was financed by $925.0 principal amount of Senior and Senior Subordinated Increasing Rate Notes due 1991 issued by KaiserTech. The Company plans to use cash from operations and from selected asset sales, together with existing cash balances, to reduce debt to the point that outstanding borrowings of KaiserTech and Kaiser Aluminum can be refinanced with new borrowings having more appropriate maturities and less restrictive covenants.

2. BASIS OF PRESENTATION

MAXXAM acquired control of KaiserTech on October 28, 1988. However, for financial reporting purposes, the Merger is deemed to have occurred on October 31, 1988. The use of a date for financial reporting purposes which is three days later than the date of the Merger does not affect significantly the financial statements of either Predecessor or Successor.

The Merger has been accounted for as a purchase as of October 31, 1988. Push-down accounting has been applied to reflect the MAXXAM investment in KaiserTech equity securities as stockholders' equity of KaiserTech at November 1, 1988. This push-down adjustment has also been reflected in stockholders' equity of the Company (see Note 10). Accordingly, Successor has recorded the assets and liabilities of Predecessor at estimated fair values. The excess of appraised fair market value of net assets acquired over purchase price was allocated to noncurrent assets. Because of these adjustments, the accompanying consolidated financial statements of Successor are not directly comparable to those of Predecessor. The values assigned by Successor to Predecessor net assets are based upon preliminary estimates and may be revised during 1989, as additional information is obtained.

The following table compares Predecessor and Successor October 31, 1988 balance sheets. The changes reflect the revaluations and changes in stockholders' equity described above.

	Predecessor	Successor	
(millions of dollars)	October 31, 1988 Before Purchase Adjustments	Purchase Adjustments	October 31, 1988 After Purchase Adjustments
Current assets	$1,073.9	$ 225.3	$1,299.2
Investments and advances	252.3	115.7	368.0
Property, net	950.4	(288.3)	662.1
Discontinued operations—net	99.6	(99.6)	
Other assets	107.9	(47.0)	60.9
Total assets	$2,484.1	$ (93.9)	$2,390.2
Current liabilities	$ 628.0	$ (47.5)	$ 580.5
Long-term liabilities	151.1	37.6	188.7
Long-term debt	640.9	(15.6)	625.3
Other noncurrent liabilities	106.3	(106.3)	
Minority interests	14.4		14.4
Redeemable preference stock	41.7	18.8	60.5
Stockholders' equity	901.7	19.1	920.8
Total liabilities and stockholders' equity	$2,484.1	$ (93.9)	$2,390.2

Successor anticipates that it will retain Predecessor tax basis for the assets and liabilities acquired. Because the fair values of certain assets acquired are higher than the tax basis, a portion of the depreciation expense for financial reporting purposes will not be deductible for tax reporting purposes. To the extent that the lower tax basis reduces the fair value of certain assets and liabilities, such reductions have been taken into consideration in determining fair values.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Accounting policies of Predecessor were the same as those of Successor unless stated otherwise.

Principles of Consolidation: The consolidated financial statements include the statements of the Company and majority-owned subsidiaries. In 1988, the Company adopted the provisions of Financial Accounting Standard (FAS) No. 94, which requires full consolidation of all majority-owned subsidiaries. Previously, the Company did not consolidate less-than-wholly owned subsidiaries. The 1987 financial statements and the 1986 balance sheet have been restated. Other 1986 financial statements and financial statements of prior years have not been restated because the effects would not be significant. Investments in subsidiaries not consolidated, joint ventures, and 20%-or-more-owned companies are accounted for by the equity method. Intercompany items and transactions are eliminated.

Foreign Currency Translation: The Company translates the assets and liabilities of certain international companies using local currencies at current rates of exchange. The resulting aggregate translation adjustments are reported as a component of stockholders' equity. The results of operations are translated at average exchange rates for the period. Gains and losses on forward contracts or other foreign currency transactions, except those hedging identifiable foreign currency commitments, are included in income.

Inventory Valuation: Substantially all Successor product inventories are stated at last-in, first-out (LIFO) cost, not in excess of market. Substantially all Predecessor product inventories are stated at first-in, first-out (FIFO) cost, not in excess of market. Other inventories of both Successor and Predecessor, principally supplies and other low value items, are stated at the lower of average cost or market. Inventory costs consist of material, labor, and manufacturing overhead, including depreciation. Finished goods, work in process, and raw materials are not shown separately because they are sold at various stages of processing.

Depreciation and Amortization: Property at year-end 1988 is stated at Successor cost, which includes recording Predecessor property at fair value — net (see Note 2) at October 31, 1988. Predecessor property is stated at historical cost. Because of the differences in valuations, certain aspects of the financial statements (for example, depreciation expense) are not comparable.

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

	Successor	Predecessor
Land improvements	5 to 15 years	25 years
Buildings	15 to 30 years	45 years
Machinery and equipment	10 to 22 years	10 to 22 years

The cost less salvage of retired property, plant, and equipment of Predecessor was charged to related accumulated depreciation. Amortization of capital leases is included with depreciation expense for property, plant, and equipment.

Income Taxes: KaiserTech and the Company are included in the consolidated federal income tax return of MAXXAM Inc. Pursuant to a tax-sharing agreement between KaiserTech and MAXXAM Inc., provisions for income taxes for KaiserTech and the Company represent an allocated portion of the MAXXAM Inc. consolidated tax provision.

Income taxes include provisions for timing differences between income determined for financial reporting and for income tax purposes. Income taxes payable includes deferred amounts related to current assets and liabilities, and other deferred amounts where the timing difference is expected to reverse during the current year. Investment tax credits are recognized as reductions of the income tax provision in the year the properties are placed in service.

Retirement Plans: Predecessor adopted the provisions of FAS Nos. 87 and 88, relating to employer accounting for pension plans, effective January 1, 1986, except for the deferral of the provisions which would recognize certain accumulated pension benefit obligations and the related intangible asset in the Consolidated Balance Sheet and would apply these standards to foreign plans. Successor has applied all provisions effective November 1, 1988. The current costs of principal domestic retirement plans are funded as accrued (see Note 13). Prior-service costs are funded and (for Predecessor) charged to operations over periods ranging from 7 to 30 years.

Statement of Consolidated Cash Flows: In 1988, the Company adopted the provisions of FAS No. 95, which requires a statement of cash flows in place of a statement of changes in financial position. The 1987 statement of changes in consolidated financial position has been replaced with a statement of cash flows comparable with 1988; as permitted by FAS No. 95, 1986 has not been replaced.

Cash and Cash Equivalents: The Company considers all money market funds, commercial paper, treasury bills, and other short-term investments with maturities of 90 days or less to be cash equivalents. Cash and cash equivalents include restricted amounts totaling $31.6 at December 31, 1988.

4. ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS

Assets held for sale consist of the estimated net realizable values of all assets expected to be sold within the next year. Assets held for sale include (i) assets that were classified as current/noncurrent assets of discontinued operations — net in Predecessor financial statements; and (ii) other assets in continuing operations that have been specifically identified for sale. Results from operations and disposals of assets classified as "held for sale" will not be included in the Statements of Consolidated Income of Successor. Such amounts result in the reallocation of the purchase price. The composition of assets held for sale was:

	Successor December 31, 1988
Trade receivables — net	$ 3.6
Other receivables	9.8
Inventories	173.1
Investments and advances	71.9
Property, plant, and equipment — net	270.6
Current liabilities	(189.3)
Other—net	(3.1)
Total	$336.6

In February 1989, the Company sold aluminum production facilities at Ravenswood, West Virginia, and Bedford, Indiana, and a regional data center at Columbus, Ohio, to the Ravenswood Aluminum Corporation ("RAC"), a new corporation formed by Stanwich Partners Inc., an investment company. The Company will sell alumina to RAC under a three-year supply agreement and will provide certain technical services for a similar period. RAC will convert a smaller amount of primary aluminum into fabricated products for the Company over a three-year period. The net assets of these facilities are included in Successor assets held for sale at December 31, 1988.

Discontinued operations of Predecessor consist of the agricultural chemicals, refractories, trading, real estate, and industrial and specialty chemicals divisions. Results of discontinued operations were:

	Predecessor		
	Ten Months Ended October 31,	Years Ended December 31,	
	1988	1987	1986
Revenues (includes equity earnings of real estate and industrial and specialty chemicals)	$15.8	$236.6	$310.6
Costs and expenses	7.6	223.1	259.9
Income before taxes	8.2	13.5	50.7
Provision for income taxes	2.3	1.8	24.6
Discontinued operations — income from operations	$ 5.9	$ 11.7	$ 26.1

The net current and noncurrent assets of Predecessor discontinued operations have been reported separately at the lower of book or estimated realizable value. The composition is:

	Predecessor December 31, 1987
Current assets — net:	
Trade receivables — net	$ 33.1
Other receivables	4.1
Inventories	32.8
Current liabilities	(23.0)
Other — net	(2.4)
Total	$ 44.6
Noncurrent assets — net:	
Investments and advances	$168.4
Property, plant, and equipment — net	128.4
Other — net	(4.5)
Total	$292.3

In the third quarter of 1987, KaiserTech and Kaiser Aluminum began implementation of a plan to sell the industrial and specialty chemicals division, including the 50%-owned Harshaw/Filtrol Partnership ("Harshaw/Filtrol"). On September 1, 1987, KaiserTech purchased the other 50% share of Harshaw/Filtrol in order to facilitate the sale of the industrial and specialty chemicals operations. In May 1988, KaiserTech and Kaiser Aluminum completed the sale of a major portion of Harshaw/Filtrol to Engelhard Corporation for approximately $212.0 in cash. The net cash proceeds were divided equally between KaiserTech and the Company. The remaining portion of Harshaw/Filtrol, consisting of a fluid cracking catalyst business, is currently held for sale. In July 1988, the Company sold the industrial chemicals operations in Louisiana to a newly formed corporation, LaRoche Chemicals Inc., for approximately $113.9.

During 1987, the Company recorded additional write-downs of $33.9 related to certain operations and businesses that were discontinued in prior years.

On December 23, 1986, Kaiser Aluminum completed the sale of Kaiser Development Company (KDC), at a purchase price based upon the financial position of KDC at November 30, 1986. Kaiser Hawaii Kai Development Company (KHKDC), the principal remaining real estate asset, is included in Successor assets held for sale at December 31, 1988, and Predecessor noncurrent assets of discontinued operations — net at December 31, 1987. The buyer of KDC had an agreement with Kaiser Aluminum to manage the operations of KHKDC and had an option to purchase the stock of KHKDC. In 1988 the buyer exercised the option to purchase KHKDC, and the sale was concluded in January 1989.

The gain before taxes of $54.5 ($19.1 after taxes) on the sale of real estate was included in discontinued operations in 1986. The 1986 provision for income taxes for discontinued operations (substantially all deferred) offsets substantially all of the tax benefits of net operating losses generated by 1986 continuing operations.

5. OTHER REVENUES AND EXPENSES AND RESTRUCTURING OF OPERATIONS

Other revenues in 1987 include gains of $16.1 from the sale of the food service packaging business and $52.7 from the sale of Kaiser Aluminium Europe Incorporated, and in 1986 include gains of $19.5 from the cancellation of a long-term gas supply contract and $16.9 from the sale of part interest in Anglesey Aluminium Limited (Anglesey).

Restructuring of operations costs and expenses in 1987 include a loss provision of $366.1 consisting principally of write-downs of the electrical products manufacturing business; idle and uneconomic primary aluminum production capacity, including the remainder of the Chalmette, Louisiana, smelter; and a provision for the loss upon disposition of oil and gas properties. Other costs and expenses in 1986 include $59.4 from the write-down of oil and gas reserves.

6. INVESTMENTS AND ADVANCES — RELATED PARTIES

Investments are accounted for primarily by the equity method. Retained earnings include undistributed earnings of companies accounted for by the equity method amounting to nil and $134.3 at December 31, 1988 and 1987.

Summary combined financial information is provided below for unconsolidated aluminum investments owned 50% or less, most of which supply and process raw materials for various participants. The equity earnings (losses) before income taxes of such operations are included in cost of products sold. Such information is presented on the historical basis of accounting of the investee companies, except that amounts representing Successor investment and equity earnings include purchase adjustments.

ALUMINUM COMPANIES SUMMARY FINANCIAL POSITION

	December 31, 1988	December 31, 1987
Current assets	$ 762.4	$ 570.8
Property, plant, and equipment — net	1,444.4	1,485.1
Other assets	145.2	158.3
Total assets	$2,352.0	$2,214.2
Current liabilities	$ 388.0	$ 338.3
Long-term debt	799.2	820.5
Other liabilities	49.2	48.1
Deferred income taxes	36.1	30.1
Stockholders' equity	1,079.5	977.2
Total liabilities and stockholders' equity	$2,352.0	$2,214.2
Company investment in combined companies	$ 353.5	$ 199.4

ALUMINUM COMPANIES SUMMARY OF OPERATIONS

	1988	1987	1986
Revenues	$1,122.2	$903.8	$935.7
Costs and expenses	931.9	855.2	909.4
Provision for income taxes	33.9	8.2	10.2
Net income	$ 156.4	$ 40.4	$ 16.1
Company equity in earnings	(1)	$ 30.0	$ 9.4

(1) Successor equity in earnings for the two months ended December 31, 1988, was $10.2 and Predecessor equity in earnings for the ten months ended October 31, 1988 was $59.3.

The relationship between the Company equity in earnings and the summary net income is attributable to the various percentage ownerships in the entities. Total assets and total liabilities of consolidated subsidiaries which were accounted for by the equity method prior to 1988 were $230.4 and $105.0 at December 31, 1988 ($206.2 and $88.2 at December 31, 1987). The Company equity in earnings of such companies was $58.9 and $24.4 for 1988 and 1987. As described in Note 3, 1986 operations information has not been restated.

Alumina Partners of Jamaica (Alpart), a 50%-owned partnership, owns an alumina refinery in Nain, Jamaica. At December 31, 1988 and 1987, investments and advances include $68.7 and $32.3 for Alpart, which is accounted for by the equity method. The Company was obligated to repay $56.2 and $64.3 of Alpart debt at December 31, 1988 and 1987, as discussed in Note 14. Production of alumina at Alpart was suspended temporarily in August 1985 due to adverse economic conditions. The Company policy is to continue normal depreciation for temporarily closed facilities. In December 1988, the Company undertook to restart production at Alpart. The restart is expected to take about six months. The Company and Hydro Aluminium a.s of Oslo are negotiating with Reynolds Metals Company (the other 50% partner in Alpart) to purchase the Reynolds share of Alpart. The purchase is expected to close by March 31, 1988 and would result in the Company having a majority ownership of Alpart, as well as management responsibility for the facility.

The Company and affiliates have interrelated operations. The Company provides its affiliates with services such as financing, management, and engineering. Significant activities with affiliates include the acquisition and processing of bauxite and alumina. Purchases from these affiliates were $62.2 and $287.2 in the two months ended December 31, 1988 and the ten months ended October 31, 1988; and $272.0 and $338.9 during 1987 and 1986.

7. PROPERTY, PLANT, AND EQUIPMENT AND LONG-TERM LEASES

	Successor	Predecessor
	December 31, 1988	December 31, 1987
Land and improvements	$ 28.1	$ 68.0
Buildings	92.8	278.8
Machinery and equipment	548.4	1,531.2
Construction in progress	7.3	30.7
Total property—at cost	676.6	1,908.7
Accumulated depreciation	7.7	958.2
Property, plant, and equipment—net	$668.9	$ 950.5

Property, plant, and equipment included capital leases consisting principally of buildings at December 31, 1988 and 1987, of $2.3 and $15.4 (net of accumulated amortization of $12.5 at December 31, 1987).

Rental expenses were $3.6 and $20.9 in the two months ended December 31, 1988 and the ten months ended October 31, 1988; and $35.3 and $37.8 during 1987 and 1986. The future minimum rentals receivable under noncancellable subleases were $76.4 at December 31, 1988. The future minimum rental commitments under noncancellable leases at December 31, 1988 were:

	Total Commitments	Operating Leases	Capital Leases
1989	$ 19.3	$ 17.5	$ 1.8
1990	17.8	16.0	1.8
1991	16.7	14.9	1.8
1992	15.8	13.9	1.9
1993	15.6	13.7	1.9
1994 and after	312.7	296.4	16.3
Total	$397.9	$372.4	25.5
Less imputed interest			7.8
Obligations under capital leases(1)			$17.7

(1) Includes $15.0 related to assets held for sale.

8. LONG-TERM OBLIGATIONS

Long-term debt, interest rates(1), and maturity schedule at December 31, 1988 are summarized in the following table:

	Successor							Predecessor
							December 31,	
Due:	1989	1990	1991	1992	1993	1994 and After	1988 Total	1987 Total
1986 Credit Agreement— Term Loan (variable rate— 9.5% at December 31, 1988)	$108.5	$100.0	$100.0	$197.9			$506.4	$689.4
First Mortgage Bonds (8.25%-11.625%)								120.3
Swiss Franc Bonds (5.5%)	2.3	2.3	2.2	26.2			33.0	30.0
Pollution Control and Economic Development Facilities Obligations (fixed and variable rates)	2.6	3.8	3.0	2.7	$2.8	$44.1	59.0	69.3
Other Borrowings (variable and fixed rates)	3.6	.7	.7	.7	.3	1.8	7.8	31.8
Total	$117.0	$106.8	$105.9	$227.5	$3.1	$45.9	606.2	940.8
Less amount due within one year							117.0	53.5
Long-term debt							$489.2	$887.3

(1) Kaiser Aluminum has entered into $115.0 of interest rate swap agreements having the effect of fixing at approximately 11.8% the interest cost of variable rate debt for one and a half years from December 31, 1988.

In March 1986, Kaiser Aluminum entered into a credit agreement with banks holding $1,008.0 of Kaiser Aluminum outstanding debt, providing for an extension of the debt as a term loan maturing December 31, 1992, and the establishment of a $165.0 revolving credit facility which expires December 31, 1989. Kaiser Aluminum is required to make minimum principal payments of $21.1 in 1989, and $100.0 for each of the years 1990 and 1991 with the final balance of $285.3 due in 1992. The maximum aggregate amount of loans under the above term loan and revolving credit facility may not exceed $725.0 on and after December 31, 1988. As part of the 1986 refinancing, Kaiser Aluminum agreed to pay supplemental interest on certain credit obligations to the original maturity, principally 1987. Such interest expense was $6.5 in 1987.

The amount of loans outstanding under the 1986 credit agreement together with certain other obligations of Kaiser Aluminum are secured by a pledge of collateral, which includes principal domestic facilities, inventories, accounts receivable and notes receivable.

The status of Kaiser Aluminum at December 31, 1988, with respect to the principal covenant provisions (as defined) of the 1986 credit agreement, was:

	Covenant Compliance Limit	Status
Minimum working capital	$ 200.0	$ 568.6
Minimum consolidated net worth	1,000.0	1,280.0
Maximum consolidated indebtedness	1,550.0	898.3
Maximum ratio of consolidated indebtedness to total capital	60.0%(1)	41.2%
Maximum aggregate investments from January 1, 1986 through December 31, 1988	$ 25.0	$ 3.1
Maximum capital expenditures (including discontinued operations) in 1988	276.3	87.0

(1) This compliance limit becomes 55.0% at the end of each fiscal quarter during 1989, and 52.5% in 1990-1992.

The 1986 credit agreement restricts Kaiser Aluminum liens, mergers, common stock dividends and stock repurchases, issuance of preferred stock, equipment leases, and transactions with (including loans or advances to) affiliates (including KaiserTech). At December 31, 1988 retained earnings of $19.5 were available for payment of dividends on common stock.

At December 31, 1988 Kaiser Aluminum is required to use 55% of net cash proceeds from asset sales to prepay debt. This provision does not apply to sales of assets in the ordinary course of business. Kaiser Aluminum is also required to prepay debt and other obligations equal to 53.13% of the first $80.0 of net cash proceeds from the sale of equity and 53.13% of the net cash proceeds from the sale of subordinated debt. The aggregate required prepayment from sales of equity and subordinated debt will not exceed $58.8. The 1986 credit agreement provides for the allocation of these prepayments to the Kaiser Aluminum bank debt and certain other obligations. During 1986, 1987, and 1988, Kaiser Aluminum received $ 646.5 in net cash proceeds of asset and other dispositions and applied $459.8 of such proceeds to prepay debt. In February 1989, the Company prepaid an additional $151.6 of debt, of which $87.4 was classified as current at December 31, 1988.

There were no outstanding borrowings during 1988 against the $165.0 1986 revolving credit facility. Interest on the revolving credit facility is based on prevailing short-term market rates.

In October 1988, Kaiser Aluminum prepaid the remaining $103.0 of First Mortgage Bonds outstanding.

Interest expense for continuing operations was $8.2 and $69.6 in the two months ended December 31, 1988 and the ten months ended October 31, 1988; and $106.1 and $127.5 in 1987 and 1986. These amounts are net of interest costs of $.5, $1.8, $2.2, and $2.4 which were capitalized.

9. REDEEMABLE PREFERENCE STOCK

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

For financial reporting purposes, Series A and B Stock was recorded by Predecessor when issued at fair value ($15 per share in 1988 and 1987 and $10 per share in 1986) based on independent appraisal with a corresponding charge to compensation cost. Carrying values were increased each year to recognize accretion of redemption values. The outstanding Series A and B shares were revalued by a Successor purchase adjustment at October 31, 1988 to give effect principally to accelerated redemptions expected to result from disposal of the

Ravenswood facility (see Note 4). Issuances and redemptions of Series A and B shares in 1988, 1987, and 1986 are shown below. Year-end shares outstanding give effect to shares issued for that year's compensation in February of the following year.

	1988	1987	1986
SHARES:			
Beginning of year	2,596,397	1,808,131	929,924
Issued	241,463	788,266	878,207
Redeemed	(230,624)		
End of year	2,607,236	2,596,397	1,808,131

No additional Series A or B Stock will be issued based on compensation earned in 1989 or future years.

While held by the plan trustee, Series B Stock is entitled to cumulative annual dividends, when and as declared by the Board of Directors, payable in Series B stock on or before March 1, 1990, in respect to years through December 31, 1989, based on a formula tied to Kaiser Aluminum profit before tax from aluminum operations; and payable in stock or in cash at the option of Kaiser Aluminum on or after March 1, 1991, in respect to years commencing January 1, 1990, based on a similar formula. When distributed to plan participants (generally on separation from Kaiser Aluminum), the Series A and B Stock are entitled to an annual cash dividend of $5 per share, payable quarterly, when and as declared by the Board of Directors.

Redemption fund agreements require Kaiser Aluminum to make annual payments by March 31 each year based on a formula tied to consolidated net income until the redemption funds are sufficient to redeem all Series A and B Stock. On an annual basis, the minimum payment is $4.3 and the maximum payment is $7.3. In March 1988 and 1987, Kaiser Aluminum contributed $4.3 for the years 1987 and 1986 and will contribute $7.3 in March 1989 for 1988. In April 1988, Kaiser Aluminum entered into a two-and-one-half-year agreement with the USWA whereby Kaiser Aluminum would make additional contributions to the Series A redemption fund of (i) $2.0 each in March 1989 and 1990; and (ii) an additional amount equal to 8.5% of the redemption value of all shares of Series A Stock distributed from the Trust occasioned by the sale of any plant covered by the agreement to the extent there is not enough money in the redemption fund to redeem the shares presented for payment.

The plan will distribute the Series A and B Stock in the event of death, retirement, or in other specified circumstances. Kaiser Aluminum may also redeem such stock at $50 per share plus accrued dividends, if any. At the option of the plan participant, the trustee shall redeem stock distributed from the plans at redemption value to the extent funds are available in the redemption fund. Under the Tax Reform Act of 1986, at the option of the plan participant, the Company must purchase distributed shares earned after December 31, 1985 at redemption value on a five-year installment basis with interest at market rates for distributed shares earned after December 31, 1985. The obligation of the Company to make such installment payments must be secured.

The Series A and B Stock are entitled to the same voting rights as Kaiser Aluminum Common Stock and to certain additional voting rights under certain circumstances including the right to elect, along with other Kaiser Aluminum $1 preference stockholders, two directors whenever accrued dividends have not been paid on two annual dividend payment dates, or when accrued dividends in an amount equivalent to six full quarterly dividends are in arrears. The Series A and B Stock restrict the ability of Kaiser Aluminum to redeem or pay dividends on Common Stock if the Company is in default on any dividends payable on the Series A and B Stock.

10. STOCKHOLDERS' EQUITY

Changes in stockholders' equity were:

	Preference Stocks ($100 Par)	Preference Stock ($1 Par)	Common Stock	Additional Capital	Currency Translation Adjustment	Retained Earnings
PREDECESSOR:						
Balance, January 1, 1986	$13.2	$ .6	$14.8	$316.5	$(3.4)	$781.0
Net loss						(32.7)
Dividends—preference stocks						(3.7)
Supplemental retirement plan contributions (112,156 shares)				1.4		
Conversions (5,786 preference shares into 22,345 common shares)	(.6)			.6		
Stock options exercised (427,868 shares)			.1	6.1		
Translation adjustments					30.5	
Redeemable preference stock accretion						(6.0)
Balance, December 31, 1986	12.6	.6	14.9	324.6	27.1	738.6
Net loss						(354.9)
Dividends—preference stocks						(4.1)
Conversions (7,581 preference shares into 28,503 common shares of Kaiser Aluminum)	(.8)			.8		
Conversions (5,757 preference shares into 22,953 common shares of KaiserTech)	(.6)			.6		
Stock options exercised (46,650 shares)			.1	.6		
Contributed capital				25.0		
Redeemable preference stock accretion						(3.0)
Translation adjustments					(21.9)	
Balance, December 31, 1987	11.2	.6	15.0	351.6	5.2	376.6
Net income						175.7
Conversions (1,914 preference shares into 7,615 common shares of KaiserTech)	(.2)			.2		
Dividends:						
Preference stock						(4.0)
Common stock						(25.1)
Redeemable preference stock accretion						(6.3)
Employee compensation (stock options) paid by KaiserTech				6.4		
Translation adjustments					(5.2)	
Balance, October 31, 1988	11.0	.6	15.0	358.2		516.9
Eliminate Predecessor retained earnings				516.9		(516.9)
Push-down MAXXAM basis				21.8		
Purchase adjustment	(2.7)					
SUCCESSOR:						
Balance, November 1, 1988	8.3	.6	15.0	896.9		
Net income						28.1
Conversions (7,304 preference shares into cash)	(.5)			.5		
Redeemable preference stock accretion						(1.7)
Balance, December 31, 1988	$ 7.8	$ .6	$15.0	$897.4		$ 26.4

The outstanding shares of Kaiser Aluminum preference stocks, in descending order of seniority, were:

	Successor	Predecessor
	Outstanding December 31, 1988	Outstanding December 31, 1987
Preference, Cumulative Convertible, $100 par:		
4-1/8%	26,949	28,449
4-3/4% (1957 Series)	21,176	22,704
4-3/4% (1959 Series)	33,980	39,913
4-3/4% (1966 Series)	21,209	21,466
Preference, $1 par, $5.25 Cumulative Convertible (1984 Series)—$50 stated value	600,000	600,000

Kaiser Aluminum Cumulative Convertible Preference Stocks, $100 par value ("$100 Preference Stocks"), restrict acquisition of junior stock and payment of dividends. At December 31, 1988, such provisions were less restrictive as to the payment of cash dividends than the 1986 credit agreement provisions. Kaiser Aluminum has the option to redeem the $100 Preference Stocks at par value plus accrued dividends. The Company does not intend to issue any additional shares of the $100 Preference Stocks.

The 4-1/8% and 4-3/4% (1957 Series, 1959 Series, and 1966 Series) $100 Preference Stocks can be exchanged for cash of $69.30, $77.84, $78.38, and $76.46, respectively.

In September 1987, KaiserTech purchased all 600,000 shares of the Kaiser Aluminum $5.25 Cumulative Convertible (1984 Series) Preference Stock, $1 par value ("1984 Series Stock"), from certain employee benefit plans for $36.4. These shares each have a preference in liquidation of $50.

11. STOCK OPTION PLAN

On May 1, 1987, the Kaiser Aluminum Stock Option Plan became the Stock Option Plan of KaiserTech. New options to purchase KaiserTech Common Stock on the same terms and conditions were substituted for all then-outstanding Kaiser Aluminum options, and all subsequent grants were made pursuant to the Stock Option Plan of KaiserTech. As part of the Merger, all outstanding KaiserTech stock options were redeemed for the difference between $19.375 per share and the option prices ($8.81 to $13.94 per share) and the Stock Option Plan was cancelled. The redemption cost was expensed by the Company in the ten-month period ended October 31, 1988.

12. INCOME TAXES — CONTINUING OPERATIONS

The provisions (credits) for income taxes consist of:

	U.S. Federal	Foreign	State	Total
SUCCESSOR:				
Two months ended December 31, 1988				
Current		$17.5	$ .1	$ 17.6
Deferred		.7		.7
Total		$18.2	$ .1	$ 18.3
PREDECESSOR:				
Ten months ended October 31, 1988				
Current	$ 26.5	$75.6	$ .7	$102.8
Deferred		(.4)		(.4)
Total	$ 26.5	$75.2	$ .7	$102.4
1987				
Current		$32.3	$ .1	$ 32.4
Deferred	$ 6.7	7.7		14.4
Total	$ 6.7	$40.0	$ .1	$ 46.8
1986				
Current	$ 2.4	$12.3	$(.7)	$ 14.0
Deferred	(66.7)	9.7		(57.0)
Total	$(64.3)	$22.0	$(.7)	$ (43.0)

Income taxes are classified as domestic or foreign based on whether payment is made or due to the U.S. or a foreign country. Certain income classified as foreign is subject to domestic (U.S.) income taxes.

During the ten months ended October 31, 1988, the Company reported an extraordinary gain of $36.0 resulting from the utilization of net operating loss carryforwards by domestic continuing and discontinued operations.

Tax provisions (credits) applicable to consolidated and unconsolidated companies are:

	Successor	Predecessor		
	Two Months Ended December 31, 1988	Ten Months Ended October 31, 1988	Years Ended December 31, 1987	1986
Consolidated Companies	$13.9	$ 90.3	$42.8	$(51.0)
Unconsolidated Companies (primarily in cost of products sold)	4.4	12.1	4.0	8.0
Total	$18.3	$102.4	$46.8	$(43.0)

The tax effects of timing differences are:

	Successor	Predecessor		
	Two Months Ended December 31, 1988	Ten Months Ended October 31, 1988	Years Ended December 31, 1987	Years Ended December 31, 1986
Operating loss carryforwards			$ 6.7	$(40.0)
Pension expense deferred for tax purposes				(12.9)
Investment tax credits				(6.3)
Depreciation	$.7	$(.1)	8.3	43.0
Plant write-downs				(5.1)
Exploration and development costs				(19.3)
Capitalized interest, property taxes, and other costs				(1.6)
Undistributed earnings of subsidiaries and affiliates				3.5
Inventory valuation method				(13.7)
Other		(.3)	(.6)	(4.6)
Total	$.7	$(.4)	$14.4	$(57.0)

The Company had net operating loss carryforwards for tax purposes of $317.8 (which expire in 1998 to 2001) at December 31, 1988. Such carryforwards will be reduced over a period of two years by the unamortized amount of $61.3 relating to the 1985 change in the U.S. federal income tax method of accounting for inventories from last-in, first-out (LIFO) to first-in, first-out (FIFO). In addition, the Company had investment tax credit carryforwards of $64.9 which is net of a 35% reduction required by the 1986 Tax Reform Act and which expire in 1991 to 2001.

As a result of the KaiserTech ownership change, substantial limitations are imposed by the Internal Revenue Code on the future use of these carryforwards. In certain circumstances, the amount of the limitation may be increased by gains economically accrued on or before the date of ownership change but recognized for tax purposes within the five-year period following such ownership change.

The benefits of net loss and investment tax credit carryforwards through 1986 were recognized previously in Predecessor financial statements as a reduction of deferred income taxes. No benefit was recognized for the 1987 Predecessor net loss because recovery was not assured during the carryforward period. Similarly, no tax benefit has been recognized by Successor for these carryforwards.

In December 1987, the Financial Accounting Standards Board issued a new statement on accounting for income taxes ("FAS No. 96"). Although the Company is not required to implement FAS No. 96 until 1990, early and retroactive application is permitted. The Company has not determined when FAS No. 96 will be adopted or which transition method will be elected. Preliminary analysis indicates that the effects of adopting FAS No. 96 could vary significantly depending on the transition method applied.

The provisions (credits) for income taxes are different from the amounts computed by applying the U.S. statutory federal income tax rate of 34% for 1988, 40% for 1987, and 46% for 1986. The differences are summarized as follows:

	Successor	Predecessor		
	Two Months Ended December 31, 1988	Ten Months Ended October 31, 1988	Years Ended December 31 1987	Years Ended December 31 1986
Provision (credits) at statutory rates	$16.2	$ 85.9	$(117.6)	$(55.6)
Increase (decrease) resulted from:				
Tax benefit of parent company losses	(7.5)	(3.0)		
Domestic losses for which no U.S. income tax benefit is available			176.5	
Difference in foreign and U.S. tax rates	9.1	15.0	(13.5)	3.2
Percentage depletion	(.7)	(3.8)		(5.5)
Difference in basis on sale of affiliate		.1		4.1
Foreign tax deductions and credits	2.6	3.6		7.0
Investment tax credits				(3.4)
Other	(1.4)	4.6	1.4	7.2
Provision (credit) for income taxes	$18.3	$102.4	$ 46.8	$(43.0)

Undistributed earnings on which the Company has not provided taxes which may be payable upon distribution were nil, $173.5, and $178 at December 31, 1988, 1987, and 1986, respectively. The U.S. federal income tax consequences of undistributed earnings through October 31, 1988 have been considered in the valuation of the Company investment in joint venture companies.

13. RETIREMENT AND BONUS PLANS

Effective January 1, 1986, Predecessor adopted certain provisions of FAS Nos. 87 and 88 relating to employer accounting for pension plans, for all U.S. pension plans. This accounting change decreased the 1986 net loss by $10.9. Prior years financial statements were not restated. Predecessor deferred application of provisions of the Standards relating to foreign pension plans and recognition of certain accumulated pension benefit obligations in the Consolidated Balance Sheet. Successor has applied all provisions of the Standards.

Retirement plans have been contributory for salaried employees and noncontributory for hourly employees. In all plans, except for plans representing less than 1% of the total accumulated benefit obligation and less than 1% of the plan assets at fair value, the benefit obligations exceed the plan assets. Employee pension benefit plans status at December 31, 1988 and 1987 is:

	Successor December 31, 1988	Predecessor December 31, 1987
Accumulated benefit obligation:		
Vested employees	$(686.3)	$(697.6)
Nonvested employees	(54.6)	(51.1)
Accumulated benefit obligation	(740.9)	(748.7)
Additional amounts related to projected salary increases	(33.5)	(35.4)
Projected benefit obligation	(774.4)	(784.1)
Plan assets (principally fixed income obligations and common stocks) at fair value	516.6	496.4
Plan assets less than projected benefit obligation	(257.8)	(287.7)
Unrecognized gains and obligations:		
Net gains		(43.7)
Net obligation		196.8
Net unrecognized gains and obligations		153.1
Unfunded accrued pension liability included in the Consolidated Balance Sheet (principally in long-term liabilities)	$(257.8)	$(134.6)

In connection with the sale of the Ravenswood and Bedford plants in February 1989 (see Note 4), RAC will assume projected benefit obligations of $72.6 included in the above total at December 31, 1988.

The components of net periodic pension cost for 1988, 1987, and 1986 are:

	Successor	Predecessor		
	Two Months Ended December 31, 1988	Ten Months Ended October 31, 1988	Years Ended December 31, 1987	1986
Service cost — benefits earned during the period	$ 1.9	$ 9.7	$ 14.7	$ 15.1
Interest cost on projected benefit obligation	10.4	52.0	63.6	66.4
Return on assets:				
Actual	(13.0)	(38.1)	(38.6)	(62.4)
Deferred gain (loss)	4.6		(11.6)	9.4
Amortization of unrecognized net transition obligation (1986 adjusted for $14.3 reduction in 1985 cost to minimum)		12.3	17.3	3.6
Net periodic pension cost	$ 3.9	$ 35.9	$ 45.4	$ 32.1

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

	Successor	Predecessor	
	1988	1987	1986
Discount rate	8.5%	8.5%	8.0%
Expected long-term rate of return on assets	10.0%	10.0%	11.0%
Rate of increase in compensation levels	6.0%	6.0%	6.0%

During 1988 and 1987, Predecessor recorded curtailment losses of $6.1 and $39.5 to reflect the shutdown or sale of plant locations. The recorded loss reduced unrecognized net obligation.

The Company and subsidiaries provide certain health care and life insurance benefits for retired employees. Substantially all employees may become eligible for those benefits if they reach retirement age while still working for the Company. Those benefits are provided through administrative services contracts with various insurance carriers. The Company pays the cost of providing these benefits as incurred. The cost of these benefits was $5.7 and $27.3 for the two months ended December 31, 1988 and the ten months ended October 31, 1988; and $30.5 and $26.6 for 1987 and 1986.

The Company also has an executive bonus plan and has supplemental retirement plans for salaried employees under which the participants contribute a percentage of their base salaries. The Company contributions toward these plans are generally based on earnings and net worth. Expense of these plans was $2.8 and $14.1 for the two months ended December 31, 1988 and the ten months ended October 31, 1988; and $1.7 and $1.6 for 1987 and 1986. There were no contributions to the executive bonus plan during 1987 and 1986.

14. COMMITMENTS AND CONTINGENCIES

The Company has financial commitments, including purchase agreements, tolling arrangements, forward foreign exchange and forward sales contracts, letters of credit, and guarantees.

Purchase agreements and tolling arrangements include agreements to supply alumina to Anglesey (Wales) (49% owned) and to purchase aluminum from this company.

Similarly, Kaiser Aluminum has long-term contracts which support financing for certain joint ventures in which the Company is a partner. These contracts include agreements for the purchase and tolling of bauxite into alumina by Queensland Alumina Limited (QAL) (Australia) (28.3% owned); for the purchase of alumina from Alpart (50.0% owned); and for the purchase and tolling of alumina into aluminum by Boyne Smelters Limited (BSL) (Australia) (20.0% owned). These obligations expire in 2008, 2021, and 2007, respectively. Under the agreements, Kaiser Aluminum is obligated unconditionally to pay proportional shares of debt, operating, and certain other costs of these joint ventures. The aggregate minimum amount of required principal payments at December 31, 1988 is $257.6 ($28.1, 1989; $48.5, 1990; $88.4, 1991; $73.2, 1992; $9.2, 1993; $10.2 thereafter). At December 31, 1988, other assets of Kaiser Aluminum include $8.0 of debt repayment in the form of a purchase of interests in outstanding notes of an affiliate. The Kaiser Aluminum share of payments, including operating costs and certain other expenses under the agreements, was $34.3 and $113.3 in the two months ended December 31, 1988 and the ten months ended October 31, 1988; and $129.9 and $136.6 in 1987 and 1986.

The Company is engaged in various litigation and arbitration proceedings. While there are uncertainties inherent in the ultimate outcome of such proceedings, management believes that the resolution of such uncertainties will not affect materially the Company financial position or the results of operations.

15. GEOGRAPHIC AREA INFORMATION

The Company now operates solely in the aluminum business. Predecessor discontinued operations consisted of agricultural chemicals, refractories, trading, real estate, and industrial and specialty chemicals (see Note 4).

Export sales from continuing operations were $93.3, and $349.2 in the two months ended December 31, 1988 and the ten months ended October 31, 1988; and $197.9 and $82.0 in 1987 and 1986.

Geographic area information relative to operations is summarized as follows:

	Successor	Predecessor		
	Two Months Ended December 31, 1988	Ten Months Ended October 31, 1988	Years Ended December 31, 1987	1986
NET SALES TO CUSTOMERS:				
Domestic	$ 204.4	$1,550.8	$1,447.1	$1,486.8
Foreign	93.7	370.6	555.8	480.3
	298.1	1,921.4	2,002.9	1,967.1
INTRAENTERPRISE SALES AND TRANSFERS:				
Domestic	1.6	8.7	12.5	9.8
Foreign	92.1	454.0	399.0	347.5
	93.7	462.7	411.5	357.3
TOTAL SALES	391.8	2,384.1	2,414.4	2,324.4
Eliminations	(93.7)	(462.7)	(411.5)	(357.3)
NET SALES	$ 298.1	$1,921.4	$2,002.9	$1,967.1
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE INCOME TAXES AND MINORITY INTERESTS:				
Domestic	$ 33.5	$ 163.8	$ (330.1)	$ (200.0)
Foreign	14.0	88.9	36.1	79.1
Total	$ 47.5	$ 252.7	$ (294.0)	$ (120.9)
IDENTIFIABLE ASSETS AT DECEMBER 31:				
Domestic	$1,419.8		$1,769.5	$2,072.4
Foreign	647.8		440.3	806.7
Discontinued Operations — net			336.9	355.9
Assets Held for Sale	336.6			
Total	$2,404.2		$2,546.7	$3,235.0
INVESTMENTS AND ADVANCES INCLUDED IN IDENTIFIABLE ASSETS:				
Domestic	$ .1			$ .1
Foreign	353.4		$ 204.4	182.5
Total	$ 353.5		$ 204.4	$ 182.6

The consolidated financial statements include foreign liabilities of $311.4, $245.2, and $383.5 for 1988, 1987, and 1986, respectively. The aggregate foreign currency gain or (loss) included in determining net income was $(5.4) and $(14.2) in the two months ended December 31, 1988 and the ten months ended October 31, 1988; and $(13.5) and $.4 in 1987 and 1986.

Sales to a single fabricated products customer were $30.4 and $266.9 in the two months ended December 31, 1988 and the ten months ended October 31, 1988.

THE STOCKHOLDERS AND THE BOARD OF DIRECTORS
OF KAISER ALUMINUM & CHEMICAL CORPORATION:

We have audited the accompanying consolidated balance sheet of Kaiser Aluminum & Chemical Corporation ("Successor," a subsidiary of MAXXAM Inc.) and subsidiary companies as of December 31, 1988 and the related statements of consolidated income and consolidated cash flows for the two-month period then ended. We have also audited the accompanying consolidated balance sheet of Kaiser Aluminum & Chemical Corporation ("Predecessor," a subsidiary of KaiserTech Limited) and subsidiary companies as of December 31, 1987 and the related statements of consolidated income for the ten-month period ended October 31, 1988 and the years ended December 31, 1987 and 1986, consolidated cash flows for the ten-month period ended October 31, 1988 and the year ended December 31, 1987, and changes in consolidated financial position for the year ended December 31, 1986. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the 1986 financial statements of certain investees, Predecessor's investment in which is accounted for by the equity method. Predecessor's equity of $83.7 million in the net assets of those investees at December 31, 1986, and of $.6 million in the 1986 net losses of those investees is included in Predecessor's 1986 consolidated financial statements. The 1986 financial statements of those investees were audited by other auditors whose reports thereon have been furnished to us, and our opinion expressed herein, insofar as it relates to amounts included for those investees for 1986, is based solely upon the reports of such other auditors.

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

In our opinion, based upon our audits and the reports of other auditors, such consolidated financial statements present fairly, in all material respects, the financial position of Successor and subsidiary companies at December 31, 1988 and the results of their operations and their cash flows for the two-month period then ended, and the financial position of Predecessor and subsidiary companies at December 31, 1987 and the results of their operations for the ten-month period ended October 31, 1988 and the years ended December 31, 1987 and 1986, their cash flows for the ten-month period ended October 31, 1988 and the year ended December 31, 1987, and the changes in their financial position for the year ended December 31, 1986 in conformity with generally accepted accounting principles.

As discussed in Notes 1 and 2 to the consolidated financial statements, MAXXAM Inc. acquired KaiserTech Limited in a purchase transaction deemed to be effective as of October 31, 1988. Push-down accounting has been applied to the financial statements of Successor, and Successor has recorded the assets and liabilities of Predecessor at estimated fair values. Accordingly, the consolidated financial statements of Successor are not comparable to those of Predecessor.

As discussed in Note 3 to the consolidated financial statements, in 1988 Predecessor changed its consolidation policy for majority-owned subsidiaries to conform with Financial Accounting Standard (FAS) No. 94, and also changed to a statement of cash flows in place of a statement of changes in financial position to comply with FAS No. 95. The 1987 consolidated financial statements and the 1986 consolidated balance sheet have been revised from those previously issued to reflect these changes.

As discussed in Note 13, in 1986 Predecessor changed its method of accounting for defined benefit pension plans to conform with FAS Nos. 87 and 88.

Deloitte Haskins & Sells

Oakland, California
March 20, 1989

	Successor	Predecessor									
	Two Months Ended December 31, 1988	Ten Months Ended October 31, 1988	Years Ended December 31, 1987	1986	1985	1984	1983	1982	1981	1980	1979
Aluminum tonnage (metric):											
Capacity at year-end	578,000[1]	690,000[1]	690,000	903,000	923,000	923,000	1,053,000	1,033,000	1,012,000	1,004,000	1,004,000
Primary production	93,314	547,669	633,328	577,861	521,886	538,662	417,289	617,566	940,119	992,353	973,670
Sales:											
Primary	51,687	226,356	124,833	74,591	37,218	169,369	144,471	215,753	168,621	251,402	229,683
Fabricated	45,458	441,079	648,682	688,150	636,956	571,827	602,972	566,377	670,483	717,347	756,342
Total sales	97,145	667,435	773,515	762,741	674,174	741,196	747,443	782,130	839,104	968,749	986,025
Average number of employees	11,248		11,468	13,096	13,454	16,234	17,248	20,688	26,250	28,042	28,951
Number of stockholders — preferred and preference	1,033		1,878	1,403	955	1,052	1,109	1,251	1,377	1,755	2,773
Additions (millions of dollars):											
Property, plant, and equipment	$13.5	$80.8	$86.6	$93.1	$120.7	$232.4	$177.8	$204.6	$290.6	$164.8	$141.4
Investments and advances		1.3	.1	1.5	.4	1.6	1.2	60.2	44.6	29.3	12.7

(1) Includes the U.S. plants and the Company's share of Volta Aluminium Company Limited, Anglesey Aluminium Limited, Boyne Smelters Limited, and Aluminium Bahrain.

Amounts for the last two months of the last quarter of 1988 are those of Successor. Amounts for the first month of the last quarter of 1988 and for each of the other quarters comprising 1988 and 1987 are those of Predecessor.

	Predecessor					Successor
1988 Quarters Ended	Mar. 31	Jun. 30(1)	Sep. 30	Month of October	Ten Months Ended October 31	Two Months Ended December 31
Continuing operations:						
Net sales	$520.0	$ 540.2	$663.9	$197.3	$1,921.4	$ 298.1
Gross profit	108.1	126.7	174.5	49.7	459.0	71.4
Income (loss) from continuing operations	30.3	41.1	62.2	11.1	144.7	28.1
Net income (loss)	38.1	33.0	83.2	21.4	175.7	28.1

1987 Quarters Ended	Mar. 31	Jun. 30(2)(3)	Sep. 30(4)	Dec. 31(5)	1987
Continuing operations:					
Net sales	$488.2	$ 526.4	$527.4	$460.9	$2,002.9
Gross profit	65.1	86.3	99.0	59.8	310.2
Income (loss) from continuing operations	(30.7)	(358.3)	13.9	[illegible].6	(343.5)
Net income (loss)	(29.3)	(387.3)	14.9	46.8	(354.9)

(1) Includes a gain before tax of $1.7 from disposition of various chemical businesses.

(2) Restated for the adoption of Financial Accounting Standard No. 94 requiring full consolidation of majority-owned subsidiaries.

(3) In June 1987, Kaiser Aluminum provided for losses of $387.0, both before and after taxes, relating to the restructuring of operations. The loss provision of $354.5 in continuing operations consisted principally of write-downs of the electrical products manufacturing business and idle and uneconomic primary aluminum production capacity, and provision for the loss upon disposition of oil and gas properties. The loss provision of $32.5 in discontinued operations related to certain operations and businesses that were discontinued in recent years.

(4) Includes a gain before tax of $16.1 from sale of the food service packaging business. In September 1987, Kaiser Aluminum provided for both before and after tax losses of $13.0, relating to the restructuring of corporate staff, $11.6 in continuing operations and $1.4 in discontinued operations.

(5) Includes a gain before tax of $52.7 from the sale of Kaiser Aluminium Europe Incorporated.

STATEMENTS OF CONSOLIDATED INCOME

Kaiser Aluminum & Chemical Corporation and Subsidiary Companies

(millions of dollars)	Successor	Predecessor									
	Two Months Ended December 31, 1988	Ten Months Ended October 31, 1988	Years Ended December 31, 1987[1]	1986	1985	1984	1983	1982	1981	1980	1979
REVENUES:											
Net sales	$298.1	$ 1,921.4	$ 2,002.9	$ 1,967.1	$ 1,774.0	$ 1,935.7	$ 1,735.1	$ 1,833.5	$2,163.2	$2,425.5	$2,255.3
Other	11.4	46.3	94.8	68.7	62.3	32.4	81.7	359.7	111.6	119.1	87.5
Total revenues	309.5	1,967.7	2,097.7	2,035.8	1,836.3	1,968.1	1,816.8	2,193.2	2,274.8	2,544.6	2,342.8
COSTS AND EXPENSES:											
Cost of products sold	226.7	1,462.4	1,692.7	1,715.2	1,624.7	1,827.9	1,655.5	1,903.5	1,937.7	1,871.0	1,730.8
Depreciation	7.7	69.6	97.7	106.6	101.2	101.0	90.2	96.1	76.1	73.6	68.9
Selling, administrative, research and development, and general	14.6	89.7	114.3	128.5	115.0	114.8	105.8	123.7	129.3	128.3	119.4
Interest	8.2	69.6	106.1	127.5	122.8	113.3	88.5	112.5	59.8	50.0	52.7
Other	4.8	23.7	14.8	78.9	236.6	23.3	62.2	90.3	2.7	10.5	11.7
Restructuring of operations			366.1								
Total costs and expenses	262.0	1,715.0	2,391.7	2,156.7	2,200.3	2,180.3	2,002.2	2,326.1	2,205.6	2,133.4	1,983.5
Income (loss) from continuing operations before income taxes and minority interests	47.5	252.7	(294.0)	(120.9)	(364.0)	(212.2)	(185.4)	(132.9)	69.2	411.2	359.3
Provision (credit) for income taxes	18.3	102.4	46.8	(43.0)	(165.7)	(150.0)	(118.1)	11.9	5.8	167.1	157.4
Income (loss) from continuing operations before minority interests	29.2	150.3	(340.8)	(77.9)	(198.3)	(62.2)	(67.3)	(144.8)	63.4	244.1	201.9
Minority interests	(1.1)	(5.6)	(2.7)								
Income (loss) from continuing operations	28.1	144.7	(343.5)	(77.9)	(198.3)	(62.2)	(67.3)	(144.8)	63.4	244.1	201.9
Discontinued operations—net of income taxes:											
Income from operations		5.9	11.7	26.1	16.8	25.5	17.1	7.6	62.5	50.3	51.8
Income (loss) on dispositions		(10.9)	(23.1)	19.1	(5.0)	(60.7)					
Income (loss) from discontinued operations		(5.0)	(11.4)	45.2	11.8	(35.2)	17.1	7.6	62.5	50.3	51.8
Income (loss) before extraordinary item	28.1	139.7	$ (354.9)	$ (32.7)	$ (186.5)	$ (97.4)	(50.2)	(137.2)	125.9	294.4	253.7
Extraordinary income—tax benefit		36.0									
Net income (loss)	$ 28.1	$ 175.7	$ (354.9)	$ (32.7)	$ (186.5)	$ (97.4)	$ (50.2)	$ (137.2)	$ 125.9	$ 294.4	$ 253.7
Debt-to-capital ratio (%)[2]	37.2	38.0	50.5	51.8	55.2	51.7	42.2	41.8	39.7	30.7	35.9

(1) Restated for the adoption of Financial Accounting Standard No. 94 requiring full consolidation of majority-owned subsidiaries.

(2) Total debt as a ratio of total debt, deferred income taxes, deferred income, minority interests, redeemable preference stock, and stockholders' equity.

TEN-YEAR SELECTED FINANCIAL DATA
CONSOLIDATED BALANCE SHEETS

Kaiser Aluminum & Chemical Corporation and Subsidiary Companies

(millions of dollars)	Successor	Predecessor								
	1988	1987[1]	1986[1]	1985	1984	1983	1982	1981	1980	1979
ASSETS:										
Current assets:										
Cash and cash equivalents	$ 209.5	$ 131.7	$ 107.5	$ 108.1	$ 36.6	$ 24.8	$ 32.9	$ 74.5	$ 63.1	$ 141.4
Receivables	321.3	310.9	333.6	294.0	359.7	478.9	521.7	303.2	400.0	442.9
Inventories	451.4	479.9	644.3	601.9	649.8	631.1	709.9	895.5	788.0	634.9
Prepaid expenses	4.3	20.5	15.5	12.1	8.8	5.2	23.0	29.0	38.7	35.1
Assets held for sale	336.6			–						
Current assets of discontinued operations — net		44.6	60.0	87.8	304.7	230.7	240.6	350.8	287.1	231.2
Total current assets	1,323.1	987.6	1,160.9	1,103.9	1,359.6	1,370.7	1,528.1	1,653.0	1,576.9	1,485.5
Investments and advances	353.5	204.4	182.6	301.2	322.5	309.5	338.1	580.9	465.7	390.9
Property, plant, and equipment — at cost	676.6	1,908.7	2,943.8	2,539.3	2,629.8	2,452.8	2,383.6	2,206.7	1,997.6	1,938.1
Accumulated depreciation	7.7	958.2	1,487.9	1,144.9	1,108.6	1,046.7	1,025.2	943.6	931.3	911.5
Property, plant, and equipment — net	668.9	950.5	1,455.9	1,394.4	1,521.2	1,406.1	1,358.4	1,263.1	1,066.3	1,026.6
Noncurrent assets of discontinued operations — net		292.3	295.9	322.1	355.1	500.3	490.8	475.3	358.2	320.4
Other assets	58.7	111.9	139.7	114.0	82.4	96.6	93.8	66.2	86.8	44.6
Total	$2,404.2	$2,546.7	$3,235.0	$3,235.6	$3,640.8	$3,683.2	$3,809.2	$4,038.5	$3,553.9	$3,268.0
LIABILITIES AND STOCKHOLDERS' EQUITY										
Current liabilities:										
Accounts payable and accruals	$ 528.9	$ 487.1	$ 459.4	$ 405.9	$ 470.6	$ 525.7	$ 462.9	$ 494.9	$ 531.3	$ 534.7
Income taxes payable	59.6	36.7	42.7	27.4	108.3	147.7	206.9	261.7	332.0	289.3
Notes payable			26.5	92.3	257.8	114.5	238.6	305.2	31.1	31.0
Long-term debt — current portion	117.0	53.5	147.6	161.6	79.6	33.8	38.6	74.2	63.5	53.1
Total current liabilities	705.5	577.3	676.2	687.2	916.3	821.7	947.0	1,136.0	957.9	908.1
Long-term liabilities	188.2	160.3	110.3	103.0	43.0	40.6	43.6	38.0	31.2	
Long-term debt	489.2	887.3	1,184.9	1,236.1	1,222.0	1,104.5	1,016.4	908.1	721.1	794.0
Deferred income taxes		65.6	61.9	27.6	123.3	272.5	322.9	304.8	263.8	231.8
Deferred income		45.7	47.9	50.1	52.3	54.5				
Minority interest	12.0	11.4	11.3							
Redeemable preference stocks	62.1	38.9	24.1	8.9						
Stockholders' equity:										
Preferred and preference stocks	8.4	11.8	13.2	13.8	14.7	14.7	16.0	16.9	22.3	48.2
Common stock	15.0	15.0	14.9	14.8	14.6	14.5	14.4	14.3	14.1	13.7
Additional capital	897.4	351.6	324.6	316.5	309.2	273.9	269.3	268.4	256.5	223.7
Currency translation adjustment		5.2	27.1	(3.4)	(32.4)	(16.5)				
Retained earnings	26.4	376.6	738.6	781.0	977.8	1,102.8	1,179.6	1,352.0	1,287.0	1,048.5
Total stockholders' equity	947.2	760.2	1,118.4	1,122.7	1,283.9	1,389.4	1,479.3	1,651.6	1,579.9	1,334.1
Total	$2,404.2	$2,546.7	$3,235.0	$3,235.6	$3,640.8	$3,683.2	$3,809.2	$4,038.5	$3,553.9	$3,268.0

(1) Restated for adoption of Financial Accounting Standard No. 94 requiring full consolidation of majority-owned subsidiaries.

DOMESTIC OPERATIONS PARTIAL LIST

STATE & CITY	OPERATION
California	
Los Angeles	Extruded Products
Oakland	Corporate Headquarters
Oxnard	Forgings
Pleasanton	R & D
Georgia	
Macon	Rod, Bar, and Wire
Louisiana	
Gramercy	Alumina
Ohio	
Newark	Rod, Bar, and Wire
Toledo	Coated Coil
Oklahoma	
Tulsa	Extruded Products, Cathodes
Pennsylvania	
Erie	Forgings
South Carolina	
Greenwood	Forgings
Texas	
Sherman	Extruded Products
Tennessee	
Jackson	Rod, Bar, and Wire
Washington	
Mead	Primary Aluminum
Tacoma	Primary Aluminum
Trentwood	Flat-Rolled Products

WORLDWIDE OPERATIONS

Kaiser Aluminum & Chemical Corporation, through subsidiaries or affiliates, participates in the following operations in these countries:

Australia
Boyne Smelters Limited (20% owned)
Queensland Alumina Limited (28.3%)

Bahrain
Aluminium Bahrain (17%)

Canada
Kaiser Aluminum & Chemical of Canada, Ltd. (100%)

Ghana
Volta Aluminium Company Limited (90%)

Jamaica
Alumina Partners of Jamaica (50%)
Kaiser Jamaica Bauxite Company (49%)

Wales, U.K.
Anglesey Aluminium Limited (49%)

As of February 28, 1989

AUDITORS

Deloitte Haskins & Sells, Oakland.

TRANSFER AGENTS AND REGISTRARS

Morgan Shareholder Services Trust Company, New York (all classes of stock; also dividend-paying and conversion agent), Bank of America N.T. & S.A., San Francisco (all classes of stock; also conversion agent).

FORM 10-K:

The corporation's Form 10-K annual report to the Securities and Exchange Commission, including financial statements, may be obtained without charge by writing to the Corporate Secretary, Kaiser Aluminum & Chemical Corporation, 300 Lakeside Drive, Room 2023, Oakland, CA 94643.

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DIRECTORS

John M. Seidl
Chairman of the Board and Chief Executive Officer, Kaiser Aluminum & Chemical Corporation and KaiserTech Limited; nominated as Director, MAXXAM Inc.

A. Stephens Hutchcraft, Jr.
President and Chief Operating Officer, Kaiser Aluminum & Chemical Corporation and KaiserTech Limited

John B. Connally
Texas Lawyer and Businessman; Former Governor of Texas and U. S. Treasury Secretary

Charles E. Hurwitz
Chairman of the Board and Chief Executive Officer, MAXXAM Inc., MAXXAM Group Inc., and Federated Development Company; Chairman of the Board, The Pacific Lumber Company

William C. Leone
President and Director, MAXXAM Inc.; Chairman of the Board and Chief Executive Officer, Horizon Corporation; Chief Executive Officer, The Pacific Lumber Company

Ezra G. Levin
Partner, Kramer, Levin, Nessen, Kamin, & Frankel; Trustee, Federated Development Company; Director, MAXXAM Inc., MAXXAM Group Inc., and UMB Bank and Trust Company

Barry A. Munitz
Vice Chairman of the Board and Director, MAXXAM Inc.; President and Trustee, Federated Development Company; Chairman of the Board and Chief Executive Officer, United Financial Group, Inc.

Paul D. Rusen
President, Employee Ownership, Inc.; Retired Director, District 23, United Steelworkers of America

C. V. Wood
Assistant to the Chairman and Director, Lorimar Telepictures, Inc.; Director, MAXXAM Inc., Horizon Corporation, and Drew Industries Inc.

CORPORATE OFFICERS AND DIVISION GENERAL MANAGERS

John M. Seidl
Chairman of the Board and Chief Executive Officer

A. Stephens Hutchcraft, Jr.
President and Chief Operating Officer

Joseph J. Bernat
Vice President and General Manager, Forgings

Joseph A. Bonn
Corporate Vice President, Strategic Planning

Robert E. Cole
Corporate Vice President, Government Affairs

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Vice President and General Manager, Rod, Bar, and Wire

Richard B. Evans
Vice President and General Manager, Flat-Rolled Products

F. Joseph Haydel, Jr.
Corporate Vice President and General Manager, Raw Materials

Richard L. Humphrey
Corporate Vice President and General Manager, Primary Aluminum Products

Robert W. Irelan
Corporate Vice President, Public Relations

John T. La Duc
Corporate Treasurer

John A. Moore
Corporate Vice President, Secretary, and Deputy General Counsel

James T. Owen
Vice President and General Manager, Extruded Products

David L. Perry
Corporate Vice President and General Counsel

Jon P. Pierce
Corporate Vice President, Human Resources

David G. Schmidt
Corporate Vice President and Controller

ASSISTANT CORPORATE OFFICERS

Charlie Alongi
Assistant Controller

Raymond F. Garavaglia
Assistant Secretary

Ross Hambly
Assistant Treasurer

John Wm. Niemand II
Assistant Secretary

Gordon V. Rogers
Assistant Secretary

Norman L. van Patten
Assistant Treasurer

Oakland, CA 94643