KAISER ALUMINUM & CHEMICAL CORPORATION
1988 ANNUAL REPORT

PLAINTIFF'S EXHIBIT
KR-19e

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.

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

(Continues on pages 4 through 20)

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 Nat mas Company in 1977 as a directo and later became a member of its executive committee. He joined the management team of the com pany 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 fo 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 eco omy and government from Harvar University. He served as deputy assistant secretary for program sys tems in the Department of Health Education and Welfare, and as dep uty 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	Y[illegible] En[illegible] December 19[illegible]
Net Sales	$298,100	$1,921,400	$2,002,90[illegible]
Income (Loss) From Continuing Operations	$ 28,100	$ 144,700	$ (343,50[illegible]
Net Income (Loss)	$ 28,100	$ 175,700	$ (354,90[illegible]
Debt-to-Capital Ratio[4]	37.2%	38.0%	50.[illegible]
Sales of Aluminum Products—Metric Tons	97,145	667,435	773,51[illegible]
Property, Plant, and Equipment Additions	$ 13,500	$ 80,800	$ 86,60[illegible]

(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.

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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.

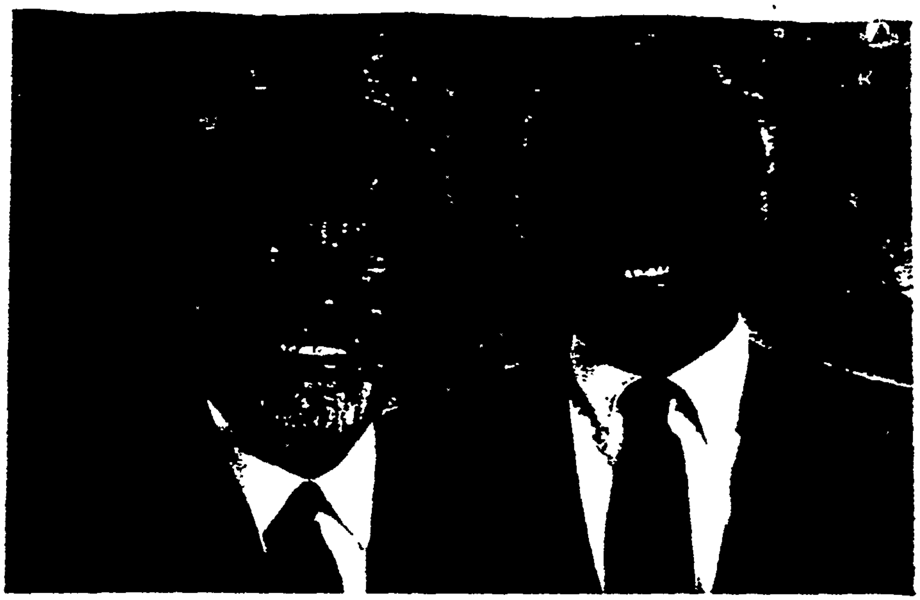
These business units are more market-driven, more innovative, more entrepreneurial, and more capable of managing change as a result of decentralization. Corpo rate staff provides the framework for overall strategy and direction as well as centralized corporate finance, but the business units a largely self-sufficient.

- For us, being market-drive means being positioned with th 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 custom and, therefore, for us. These incl beverage containers, a market where demand continues to gro aerospace, which is benefiting f high demand for new commerci aircraft; and transportation, wh the amount of aluminum used i cars, trucks, shipping container and boats continues to rise beca of the metal's versatility and lig weight. We also have expanded alumina sales and diversified th line of primary aluminum produ we market to others.
- Any organization is only a good as the people it employs. V are extremely proud of the perfo ance of our people throughout t difficult period which the indus and the company experienced beginning in the early 1980s. D

ing 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



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

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.

• 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

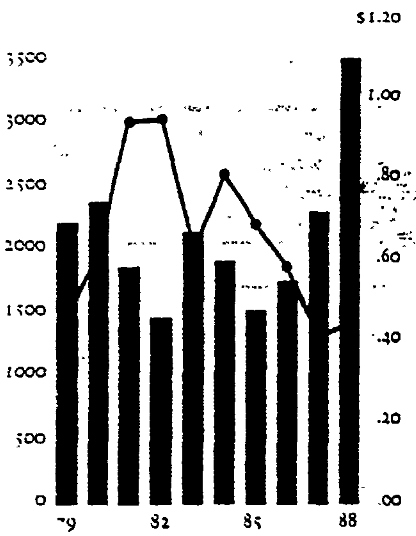
John M. Seidl
Chairman and
Chief Executive Officer

A. S. Hutchcraft, Jr.

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 \$1.1[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 19 shipments by Kaiser Aluminiu Europe, a business sold in the fourth quarter of that year). Due to the improvement in 1988 ing prices, increased production at ser smelters, and lower internal mary metal needs, the percenta of shipments made in the form ingot rose to 36% of the total fr 16% in 1987.

Primary metal production Kaiser Aluminum in 1988 reacl 640,983 metric tons, for an aver age operating rate of 95.7%. Th compares with output of 633,3 tons or 85% of annual capacity 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 BUSINESSES

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 Capac Available Kaiser Alumin
Bauxite Mining	
Kaiser Jamaica Bauxite Company, Jamaica (49% owned)[1]	4,200,0
Alumina Partners of Jamaica (Alpart), Jamaica (50% owned)[2]	1,200,0
Total	5,400,0
Alumina Refining	
Gramercy, Louisiana	748,0
Alumina Partners of Jamaica (Alpart), Jamaica (50% owned)	500,0
Queensland Alumina Ltd., Australia (28.3% owned)	774,0
Total	2,022,0

(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 Capac Available Kaiser Alumin
Mead, Washington	200,00
Tacoma, Washington	73,00
U.S. Total	273,00
Volta Aluminium Co. Ltd. (Valco), Ghana (90% owned)	180,00
Anglesey Aluminium Ltd., Wales (49% owned)	55,00
Boyne Smelters Ltd., Australia (20% owned)	41,00
Aluminium Bahrain, Bahrain (17% owned)	29,00
Overseas Total	305,00
World Total	578,00

(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 market

ALUMINA—OPERATING RATE AND SALES
% of Rated Capacity Utilization*

External Sales
Internal Transfers

*Includes Kaiser Aluminum's share of Alpart's capacity.

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.

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.

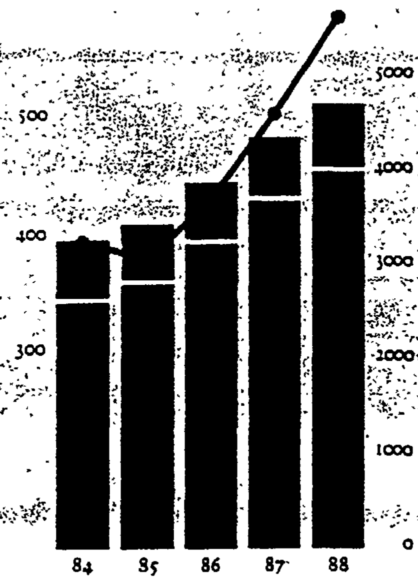
• Selling to a more diversified customer base, such as trade merchants, other aluminum producers, end-users, and the London Metal Exchange terminal market. In 1989, the division plans to marke about 340,000 metric tons of met to outside customers.

• 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 include the redesign of the cathodes and anodes that conduct electricity through reduction cells, improvec "feed" systems that add alumina 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 tec nology and sells technical assistance to other producers around tl globe, and expects to expand its technical sales effort in 1989.

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



EMPLOYMENT AND PRODUCTION AT KAISER-MANAGED SMELTERS

■ Production in 000s Metric Tons

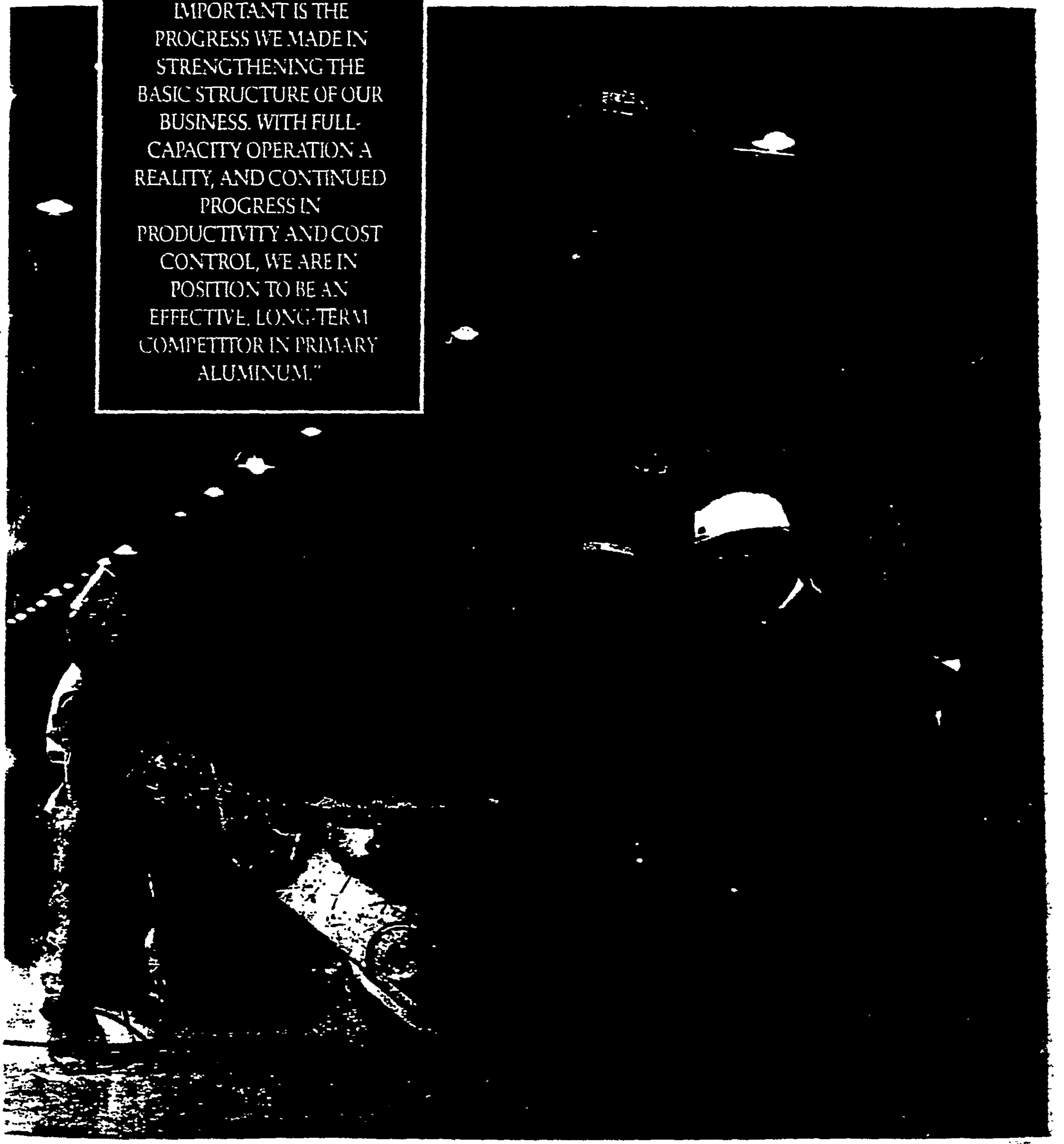
Employees

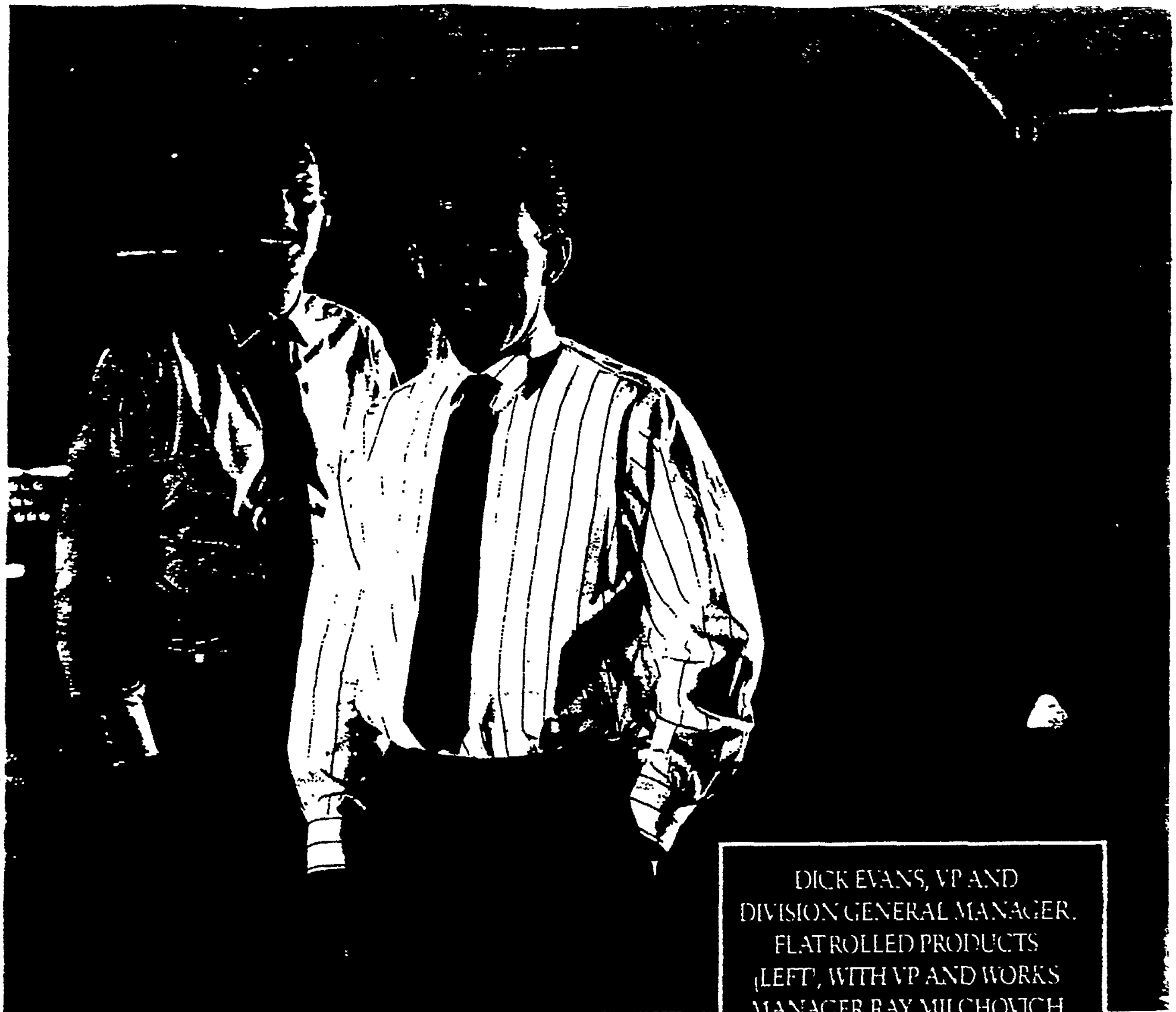
■ Hourly

■ Salaried

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."





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.

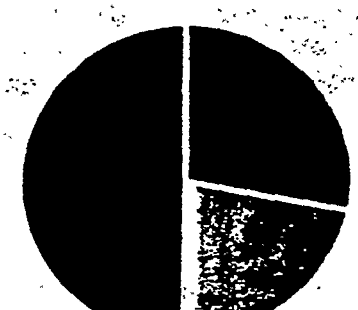
Trentwood's ability to manufacture products with superior gauge, flatness, shape, and metallurgical properties is the result of a five-year, $250 million capital spending program that has provided state-of-the-art hot and cold rolling equipment and improvements in operating methods.

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.

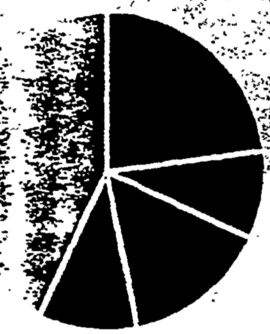
Because of the regional nature of the industry, each of the extruded products division's businesses operates on a semi-autonomous basis, seeking to develop additional niche markets having special tolerance and value-added fabricating requirements. Metal procurement, technology, and marketing efforts 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.

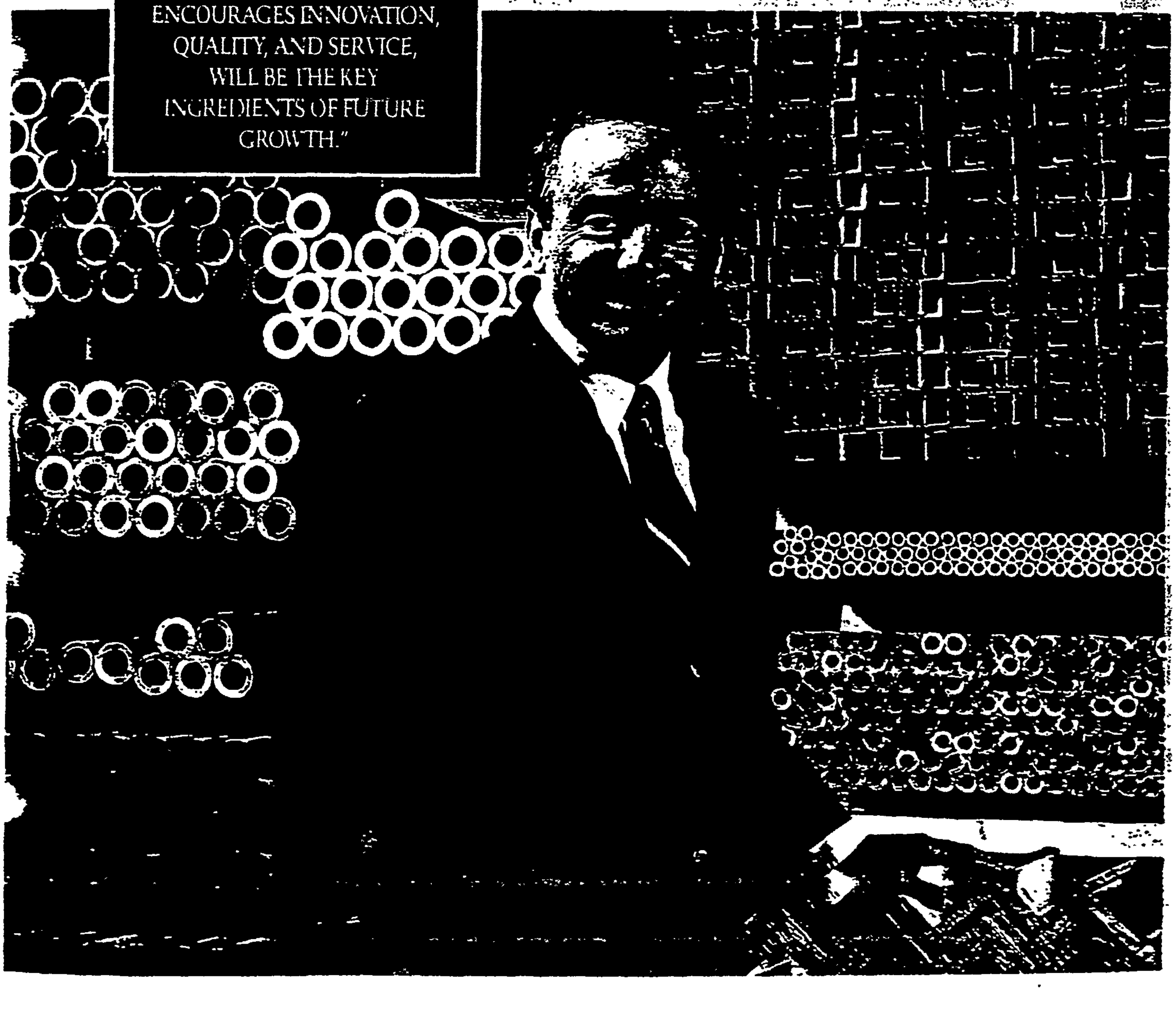


MARKETS SERVED—1988—BY VOLUME

- 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, V.P.
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."

ROD, BAR, AND WIRE

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.

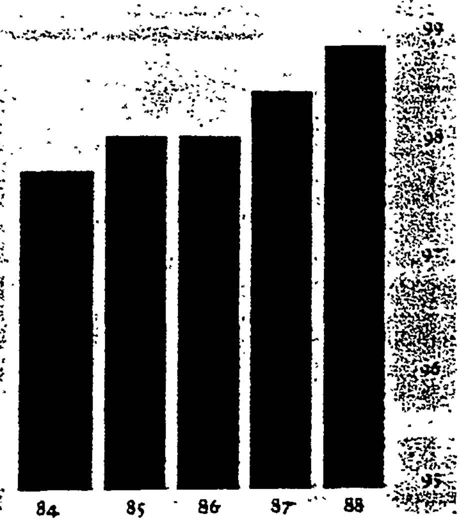
The Newark facility operated near capacity in 1988 and expects continued strong demand for its principal products in 1989. Newark will continue to operate its modern remelt facilities, its 10-inch mill, and its 6600-ton indirect extrusion press—the largest indirect press in the U.S. In 1988, Newark's 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

FORGINGS

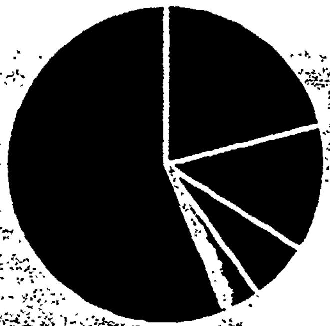
The forging division operates production facilities at Erie, Pennsylvania, and Oxnard, California, and is adding an $11 million facility at Greenwood, South Carolina. The division's strategy is to continue to grow as a major supplier of high-quality forged parts to customers in the transportation, aerospace,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

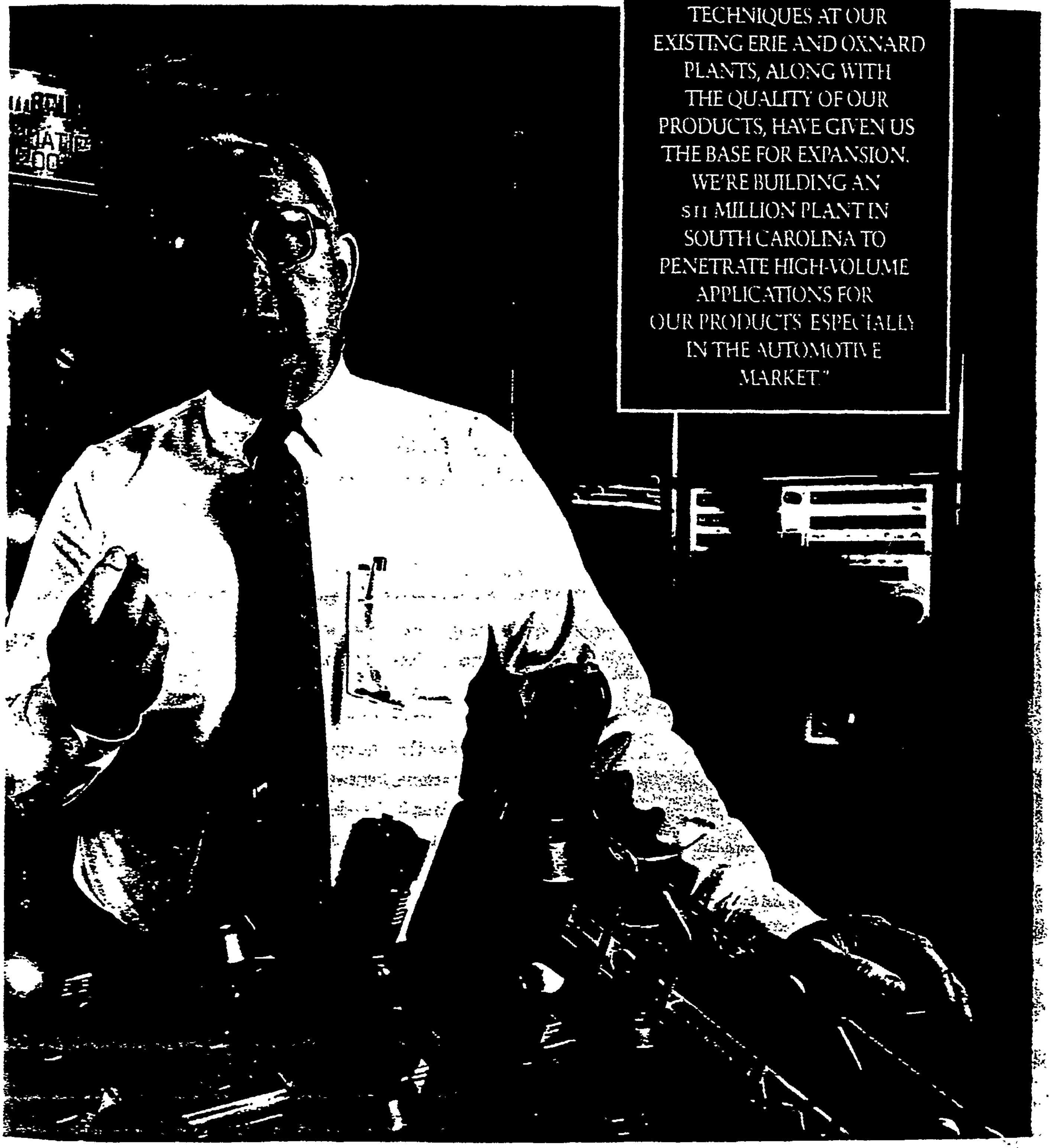


MARKET SEGMENTS—1989 (EST.)
BY REVENUES

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

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."



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.

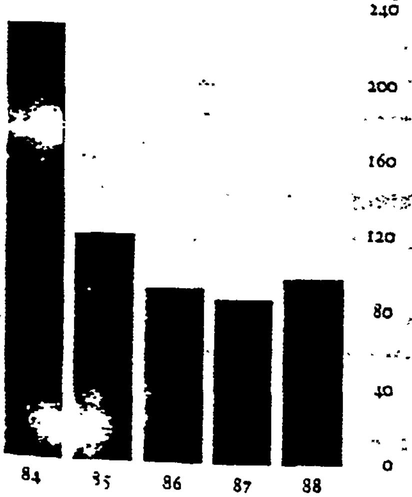
In 1988, Kaiser Aluminum adopted the provisions of Financial Accounting Standard No. 94, which requires full consolidation of all majority-owned subsidiaries (see Note 3). Previously, the Company did not consolidate subsidiaries that were less than wholly owned. The 1987 financial statements and the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

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.

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 reduc-



CAPITAL SPENDING
(in millions of dollars)

tion 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

	Successor	Predecessor				
	Two Months Ended December 31,	Ten Months Ended October 31,	Years Ended December 31,			
millions of dollars	1988	1988	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, [illegible]
REVENUES:				
Net sales	$298.1	$1,921.4	$2,002.9	$1,967.
Other	11.4	46.3	94.8	68.
Total revenues	309.5	1,967.7	2,097.7	2,035.
COSTS AND EXPENSES:				
Cost of products sold	226.7	1,462.4	1,692.7	1,715.
Depreciation	7.7	69.6	97.7	106.
Selling, administrative, research and development, and general	14.6	89.7	114.3	128.
Interest	8.2	69.6	106.1	127.
Other	4.8	23.7	14.8	78.
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	Predecessor	
	Two Months Ended December 31, 1988	Ten Months Ended October 31, 1988	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.

STATEMENT OF CHANGES IN CONSOLIDATED FINANCIAL POSITION

Kaiser Aluminum & Chemical Corporation and Subsidiary Companies

(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 year

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.

5. LONG-TERM OBLIGATIONS

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

	Successor							Predecesso
							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.[illegible]
Net loss						(32.[illegible]
Dividends—preference stocks						(3.[illegible]
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.[illegible]
Balance, December 31, 1986	12.6	.6	14.9	324.6	27.1	738.[illegible]
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.[illegible]
Translation adjustments					(21.9)	
Balance, December 31, 1987	11.2	.6	15.0	351.6	5.2	376.[illegible]
Net income						175.7
Conversions (1,914 preference shares into 7,615 common shares of KaiserTech)	(.2)			.2		
Dividends:						
Preference stock						(4.[illegible]
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 Outstanding December 31, 1988	Predecessor 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	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[illegible] at December 31, 19[illegible], 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	Predecessor
	December 31, 1988	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	Years Ended December 31, 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.

INDEPENDENT AUDITORS' REPORT

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

OPERATING AND FINANCIAL DATA (UNAUDITED)

Kaiser Aluminum & Chemical Corporation and Subsidiary Companies

	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.

QUARTERLY FINANCIAL DATA (UNAUDITED)

Kaiser Aluminum & Chemical Corporation and Subsidiary Companies

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	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[1]	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]	(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.

TEN-YEAR SELECTED FINANCIAL DATA
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

	Successor	Predecessor								
(millions of dollars)	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	48.1
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.

CORPORATE INFORMATION

Kaiser Aluminum & Chemical Corporation and Subsidiary Companies

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

Edward J. Coyne
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

CORPORATE INFORMATION

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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