

KAISER ALUMINUM CORP

FORM 10-K (Annual Report)

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Industry	Metal Mining
Sector	Basic Materials
Fiscal Year	12/31

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

Annual Report Pursuant to Section 13 or 15(d) of the Securities
Exchange Act of 1934
For the fiscal year ended December 31, 1998
Commission file number 1-9447

KAISER ALUMINUM CORPORATION

(Exact name of registrant as specified in its charter)

DELAWARE
(State of Incorporation)

94-3030279
(I.R.S. Employer
Identification No.)

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

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

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

Title of each class	Name of each exchange on which registered
Common Stock, \$.01 par value	New York Stock Exchange

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

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

As of March 23, 1999, there were 79,153,543 shares of the Common Stock of the registrant outstanding. Based upon the New York Stock Exchange closing price on March 23, 1999, the aggregate market value of the registrant's Common Stock held by non-affiliates was \$143.7 million.

Certain portions of the registrant's annual report to shareholders for the fiscal year ended December 31, 1998, are incorporated by reference into Parts I, II, and IV of this Report on Form 10-K. Certain portions of the registrant's definitive proxy statement to be filed not later than 120 days after the close of the registrant's fiscal year are incorporated by reference into Part III of this Report on Form 10-K.

NOTE

Kaiser Aluminum Corporation's Report on Form 10-K filed with the Securities and Exchange Commission includes all exhibits required to be filed with the Report. Copies of this Report on Form 10-K, including only Exhibit 21 of the exhibits listed on pages 23 - 28 of this Report, are available without charge upon written request. The registrant will furnish copies of the other exhibits to this Report on Form 10-K upon payment of a fee of 25 cents per page. Please contact the office set forth below to request copies of this Report on Form 10-K and for information as to the number of pages contained in each of the other exhibits and to request copies of such exhibits:

Corporate Secretary Kaiser Aluminum Corporation 5847 San Felipe, Suite 2600 Houston, Texas 77057 (713) 267-3777

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PART I**ITEM 1. BUSINESS**

This Annual Report on Form 10-K (the "Report") contains statements which constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. These statements appear in a number of places in this Report (see, for example, Item 1. "Business - Strategic Initiatives," " - Business Operations," " - Competition," " - Research and Development," " - Environmental Matters," and " - Factors Affecting Future Performance," Item 3. "Legal Proceedings," and Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations"). Such statements can be identified by the use of forward-looking terminology such as "believes," "expects," "may," "estimates," "will," "should," "plans" or "anticipates" or the negative thereof or other variations thereon or comparable terminology, or by discussions of strategy. Readers are cautioned that any such forward-looking statements are not guarantees of future performance and involve significant risks and uncertainties, and that actual results may vary materially from those in the forward-looking statements as a result of various factors. These factors include the effectiveness of management's strategies and decisions, general economic

and business conditions, developments in technology, new or modified statutory or regulatory requirements, and changing prices and market conditions. This Report and the financial portion of the Company's 1998 Annual Report to Shareholders (see Items 6 through 8 of this Report) identify other factors that could cause such differences. No assurance can be given that these are all of the factors that could cause actual results to vary materially from the forward- looking statements.

General

Kaiser Aluminum Corporation (the "Company"), a Delaware corporation organized in 1987, is a subsidiary of MAXXAM Inc. ("MAXXAM"). MAXXAM and one of its wholly-owned subsidiaries together own approximately 63% of the Company's Common Stock, with the remaining approximately 37% publicly held. The Company, through its subsidiary, Kaiser Aluminum & Chemical Corporation ("KACC"), operates in all principal aspects of the aluminum industry - the mining of bauxite, the refining of bauxite into alumina, the production of primary aluminum from alumina, and the manufacture of fabricated (including semi-fabricated) aluminum products. In addition to the production utilized by KACC in its operations, KACC sells significant amounts of alumina and primary aluminum in domestic and international markets. In 1998, KACC produced approximately 2,964,000 tons* of alumina, of which approximately 76% was sold to third parties, and produced approximately 387,000 tons of primary aluminum, of which approximately 68% was sold to third parties. KACC is also a major domestic supplier of fabricated aluminum products. In 1998, KACC shipped approximately 405,000 tons of fabricated aluminum products to third parties, which accounted for approximately 5% of total United States domestic shipments.

The Company's operations are conducted through KACC's business units. The following table sets forth total shipments and intersegment transfers of KACC's alumina, primary aluminum, and fabricated aluminum operations:

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

	Year Ended December 31,		
	1998	1997	1996
	(in thousands of tons)		
ALUMINA:			
Shipments to Third Parties	2,250.0	1,929.8	2,073.7
Intersegment Transfers	750.7	968.0	912.4
	3,000.7	2,897.8	2,986.1
PRIMARY ALUMINUM:			
Shipments to Third Parties	263.2	327.9	355.6
Intersegment Transfers	162.8	164.2	128.3
	426.0	492.1	483.9
FLAT-ROLLED PRODUCTS:	235.6	247.9	204.8
ENGINEERED PRODUCTS:	169.4	152.1	122.3

Note 11 of Notes to Consolidated Financial Statements contained

in the Company's 1998 Annual Report to Shareholders (the "Annual Report") is incorporated herein by reference.

Labor Matters

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

As a result of the USWA strike, KACC temporarily curtailed three out of a total of eleven potlines at its Mead and Tacoma, Washington, aluminum smelters at September 30, 1998. The curtailed potlines represent approximately 70,000 tons of annual production capacity out of a total combined production capacity of 273,000 tons per year at the facilities. In February 1999, KACC began restarting the two curtailed potlines at its Mead smelter representing approximately 50,000 tons of the previously idle capacity. KACC has also announced that it has completed preparations to restart 20,000 tons of idle capacity at its Tacoma smelter. However, the timing for any restart of the Tacoma potline has yet to be determined and will depend upon market conditions and other factors. Costs associated with the preparation and restart of the potlines at the Mead and Tacoma facilities are expected to adversely affect the Company's first quarter results.

While the Company initially experienced an adverse strike-related impact on its profitability in the fourth quarter of 1998, the Company currently believes that KACC's operations at the affected facilities have been substantially stabilized and will be able to run at, or near, full

capacity, and that the incremental costs associated with operating the affected plants during the dispute were eliminated or substantially reduced as of January 1999 (excluding the impacts of the restart costs discussed above and the effect of market factors such as the continued market-related curtailment at the Tacoma smelter). However, no assurances can be given that KACC's efforts to run the plants on a sustained basis, without a significant business interruption or material adverse impact on the Company's operating results, will be successful.

See Note 1 of Notes to Consolidated Financial Statements "- Labor Related Costs," and Note 9 of Notes to Consolidated Financial Statements "- Labor Matters" in the Annual Report.

Strategic Initiatives

KACC's strategic objectives include the improvement of the earnings from its existing businesses; the redeployment of its existing investment in assets that are not strategically essential to continued profit growth; the addition of assets to its growth businesses; and the improvement of its financial structure.

In 1996, the Company set a goal of achieving \$120.0 million of pre-tax cost reductions and other profit improvements, independent of metal price changes, with the full effect planned to be realized in 1998 and beyond, measured against 1996 results. The Company believes that KACC's operations had achieved the run rate necessary to meet this objective prior to the end of the third quarter of 1998, when the impact of such items as smelter operating levels, the USWA strike and foreign currency changes are excluded from the analysis. Further, the Company believes that KACC has implemented the steps that will allow it to sustain the stated goal over the long term. The Company remains committed to sustaining the full \$120.0 million improvement and to generating additional profit improvements in future years; however, no assurances can be given that the Company will be successful in this regard. See "Management's Discussion and Analysis of Financial Condition and Results of Operations - Labor Matters, - Strategic Initiatives, and - Valco Operating Level", and Note 1 of Notes to Consolidated Financial Statements "- Labor Related Costs" in the Annual Report.

In addition to working to improve the performance of the Company's existing assets, the Company has devoted significant efforts analyzing its existing asset portfolio with the intent of focusing its efforts and capital in sectors of the industry that are considered most attractive, and in which the Company believes it is well positioned to capture value. The initial steps of this process resulted in the June 1997 acquisition of the Bellwood extrusion facility, the May 1997 formation of AKW L.P. ("AKW"), a joint venture that designs, manufactures and sells heavy duty aluminum wheels, the rationalization of certain of the Company's engineered products operations, and the Company's investment to expand its capacity for heat treat flat-rolled products at its Trentwood, Washington, rolling mill. The restructuring activities resulted in the Company recording a net pre-tax charge of \$19.7 million in June 1997. See Notes 3 and 4 of Notes to Consolidated Financial Statements in the Annual Report.

The portfolio analysis process also resulted in the Company's fourth quarter 1998 decision to seek a strategic partner for further development and deployment of KACC's Micromill(TM) technology. While technological progress has been good, management concluded that additional time and investment would be required for success. Given the Company's other strategic priorities, the Company believes that introducing added commercial and financial resources is the appropriate course of action for capturing the maximum long term value. This change in strategic course required a different accounting treatment, and the Company correspondingly recorded a \$45.0 million impairment charge to reduce the carrying value of the Micromill assets to approximately \$25.0 million. See Note 3 of Notes to Consolidated Financial Statements in the Annual Report.

Another area of emphasis has been a continuing focus on managing the Company's legacy liabilities. One element of this process has been actively pursuing claims in respect of insurance coverage for certain incurred and future environmental costs. During the fourth quarter of 1998, KACC received recoveries totaling approximately \$35.0 million related to current and future claims against certain of its insurers. Recoveries of \$12.0 million were deemed to be allocable to previously accrued (expensed) items and were reflected in earnings during the fourth quarter of 1998. The remaining recoveries were offset against increases in the total amount of environmental reserves. No assurances can be given that the Company will be successful in other attempts to recover incurred or future costs from other insurers or that the amount of any recoveries received will ultimately be adequate to cover costs incurred. See Note 9 of Notes to Consolidated Financial Statements in the Annual Report.

In early 1999, the Company's program to focus its efforts and capital in sectors of the industry which it considers to be the most attractive, and in which the Company believes it is well positioned to capture value, has resulted in an agreement to sell one joint venture interest and a separate agreement to purchase another. In January 1999, KACC signed a letter of intent to sell its 50% interest in AKW to its joint venture partner. The transaction, which would result in the Company recognizing a substantial gain, is currently expected to close on or about March 31, 1999. However, as the transaction is subject to negotiation of a definitive purchase agreement, no assurances can be given that this transaction will be consummated. Also, in February 1999, KACC completed the acquisition of the remaining 45% interest in Kaiser LaRoche Hydrate Partners, an alumina marketing venture, from its joint venture partner for a cash purchase price of approximately \$10.0 million. See Note 12 of Notes to Consolidated Financial Statements in the Annual Report. Additional portfolio analysis and initiatives are continuing.

Sensitivity to Prices and Hedging Programs

The Company's operating results are sensitive to changes in the prices of alumina, primary aluminum, and fabricated aluminum products, and also depend to a significant degree upon the volume and mix of all products sold and on KACC's hedging strategies. Primary aluminum prices have historically been subject to significant cyclical fluctuations. Alumina prices, as well as fabricated aluminum product prices (which vary considerably among products), are significantly influenced by changes in the price of primary aluminum and generally lag behind primary

aluminum prices. From time to time in the ordinary course of business KACC enters into hedging transactions to provide price risk management in respect of its net exposure resulting from (i) anticipated sales of alumina, primary aluminum, and fabricated aluminum products, less (ii) expected purchases of certain items, such as aluminum scrap, rolling ingot, and bauxite, whose prices fluctuate with the price of primary aluminum. Forward sales contracts are used by KACC to lock-in or fix the effective price that KACC will receive for its sales. KACC also uses option contracts (i) to establish a minimum price for its product sales, (ii) to establish a "collar" or range of prices for its anticipated sales, and/or (iii) to permit KACC to realize possible upside price movements. See "Management's Discussion and Analysis of Financial Condition and Results of Operations - Market-related Factors" and Note 1 - "Derivative Financial Instruments" and Note 10 of Notes to Consolidated Financial Statements in the Annual Report.

Business Operations

KACC conducts its business through four main business units, each of which is discussed below.

- Alumina Business Unit

The following table lists KACC's bauxite mining and alumina refining facilities as of December 31, 1998:

Activity	Facility	Location	Company Ownership	Annual Production Capacity Available to the Company	Total Annual Production Capacity
				(tons)	(tons)
Bauxite Mining	KJBC(1)	Jamaica	49.0%	4,500,000	4,500,000
	Alpart(2)	Jamaica	65.0%	2,275,000	3,500,000
				6,775,000	8,000,000
				=====	=====
Alumina Refining	Gramercy	Louisiana	100.0%	1,050,000	1,050,000
	Alpart	Jamaica	65.0%	942,500	1,450,000
	QAL	Australia	28.3%	1,032,950	3,650,000
				3,025,450	6,150,000
				=====	=====

(1) Although KACC owns 49% of Kaiser Jamaica Bauxite Company ("KJBC"), it has the right to receive all of KJBC's output.

(2) Alumina Partners of Jamaica ("Alpart") bauxite is refined into alumina at the Alpart refinery.

KACC's principal customers for bauxite and alumina consist of other aluminum producers that purchase bauxite and smelter-grade alumina, trading intermediaries who resell raw materials to end-users, and users of chemical-grade alumina. The Company believes that among alumina producers KACC is the world's second largest seller of smelter-grade alumina to third parties. KACC's strategy is to sell a substantial portion of the alumina available to it in excess of its internal smelting requirements under multi-year sales contracts with prices linked to the price of primary aluminum. See "- Competition" and "- Sensitivity to Prices and Hedging Programs" in this Report.

Bauxite mined in Jamaica by KJBC is refined into alumina at KACC's plant at Gramercy, Louisiana, or is sold to third parties. In 1979, the Government of Jamaica granted KACC a mining lease for the mining of bauxite sufficient to supply KACC's then-existing Louisiana alumina refineries at their annual capacities of 1,656,000 tons per year until January 31, 2020. Alumina from the Gramercy plant is sold to third parties. The Gramercy, Louisiana, refinery is one of the five KACC plants which is subject to the continuing USWA dispute. See "-Labor Matters" in this Report, and "Management's Discussion and Analysis of Financial Condition and Results of Operations - Labor Matters" in the Annual Report.

In February 1999 KACC, through a subsidiary, purchased its partner's 45% interest in Kaiser LaRoche Hydrate Partners, a partnership which markets chemical-grade alumina manufactured by KACC's Gramercy facility. These products are sold at a premium price over smelter-grade alumina, and this acquisition will permit KACC to expand its market position in this business in North America. See "Management's Discussion and Analysis of Financial Condition and Results of Operations - Strategic Initiatives" in the Annual Report.

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

In 1999, Alpart and JAMALCO, a joint venture between affiliates of Alcoa Inc. and the government of Jamaica, reached an agreement to form a joint venture bauxite mining operation to consolidate their bauxite mining operations in Jamaica, with the objective of optimizing mining operating and capital costs. The transaction is subject to various conditions. Subject to satisfaction of those conditions, the joint venture is expected to commence operations during the second half of 1999.

KACC owns a 28.3% interest in Queensland Alumina Limited ("QAL"), which owns the largest and one of the most competitive alumina refineries in the world, located in Queensland, Australia. QAL refines bauxite into alumina, essentially on a cost basis, for the account of its stockholders under long-term tolling contracts. The stockholders, including KACC, purchase bauxite from another QAL stockholder under long-term supply contracts. KACC has contracted with QAL to take approximately 792,000 tons per year of capacity or pay standby charges. KACC is unconditionally obligated to pay amounts calculated to service its share (\$97.6 million at December 31, 1998) of certain debt of QAL, as well as other QAL costs and expenses, including bauxite shipping costs.

KACC sold alumina in 1998 to approximately 20 customers, the largest and top five of which accounted for approximately 19% and 67% of such sales, respectively. All of KACC's third-party sales of bauxite in 1998 were made to one customer, which represents approximately 6% of total bauxite and alumina third party revenues.

- Primary Aluminum Business Unit

The following table lists KACC's primary aluminum smelting facilities as of December 31, 1998:

Location	Facility	Company Ownership	Annual Rated Capacity Available to the Company	Total Annual Rated Capacity	1998 Average Operating Rate
Domestic					
Washington	Mead	100%	200,000	200,000	103% (1)
Washington	Tacoma	100%	73,000	73,000	94%
Subtotal			273,000	273,000	
International					
Ghana	Valco	90%	180,000	200,000	25%
Wales, United Kingdom	Anglesey	49%	66,150	135,000	100%
Subtotal			246,150	335,000	
Total			519,150	608,000	

(1) In recent years the Mead smelter has consistently operated at an annual rate in excess of its rated capacity of 200,000 tons. As a result of the strike-related partial curtailment of the Mead smelter, the 1998 average operating rate declined from that of a year ago but remained above 100% of rated capacity.

KACC's principal primary aluminum customers consist of large trading intermediaries and metal brokers. In 1998, KACC sold its primary aluminum production not utilized for internal purposes to approximately 42 customers, the largest and top five of which accounted for approximately 30% and 58% of such sales, respectively. See "- Competition" in this Report. Marketing and sales efforts are conducted by personnel located in Pleasanton, California; Houston, Texas; and Tacoma and Spokane, Washington. A majority of the business unit's sales are based upon long-term relationships with metal merchants and end-users.

KACC has developed and installed proprietary retrofit and control technology in all of its smelters, as well as at third party locations. This technology - which includes the redesign of the cathodes, anodes and bus that conduct electricity through reduction cells, improved feed systems that add alumina to the cells, computerized process control and energy management systems, and furnace technology for baking of anode carbon - has significantly contributed to increased and more efficient production of primary aluminum and enhanced KACC's ability to compete more effectively with the industry's newer smelters. KACC engages in efforts to license this technology and sell technical and managerial assistance to other producers worldwide, and may participate in joint ventures or similar business partnerships which employ KACC's technical and managerial knowledge. See "-Research and Development" in this Report.

Domestic Smelters

The Mead facility uses pre-bake technology and produces primary aluminum. Approximately 64% of Mead's 1998 production was used at KACC's Trentwood, Washington, rolling mill, and the balance was sold to third parties. The Tacoma facility uses Soderberg technology and produces primary aluminum and high-grade, continuous-cast, redraw rod, which currently commands a premium price in excess of the price of primary aluminum. Both smelters have achieved significant production efficiencies through retrofit technology and a variety of cost controls, leading to increases in production volume and enhancing their ability to compete with newer smelters. The Mead and Tacoma, Washington,

smelters are two of the five KACC plants which are subject to the continuing USWA dispute. See "-Labor Matters" in this Report.

KACC has modernized and expanded the carbon baking furnace at its Mead smelter at an estimated cost of approximately \$55.3 million. The project has improved the reliability of the carbon baking operations, increased productivity, enhanced safety, and improved the environmental performance of the facility. The first stage of this project, the construction of a new \$40.0 million 90,000 ton per year furnace, was completed in 1997. The remaining modernization work was completed in 1998 and early 1999. A portion of this project was financed with the net proceeds (approximately \$18.6 million) of 7.6% Solid Waste Disposal Revenue Bonds due 2027 issued in March 1997 by the Industrial Development Corporation of Spokane County, Washington.

Foreign Smelters

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

During most of 1998, the Valco smelter operated only one of its five potlines, as compared to 1997, when Valco operated four potlines. Each of Valco's potlines produces approximately 40,000 tons of primary aluminum per year. Valco received compensation (in the form of energy credits to be utilized over the last half of 1998 and during 1999) from the Volta River Authority ("VRA") in lieu of the power necessary to run two of the potlines that were curtailed during 1998. The compensation substantially mitigated the financial impact of the curtailment of such lines. Valco did not receive any compensation from the VRA for one additional potline which was curtailed in January 1998. Based on Valco's proposed 1999 power allocation from the VRA, Valco has announced that it expects to operate three lines during 1999. The decision to operate at that level was based on the power allocation that Valco has received from the VRA as well as consideration of market and other factors. Valco has notified the VRA that it believes it had the contractual rights at the beginning of 1998 to sufficient energy to run four and one-half potlines for the balance of the year. Valco continues to seek compensation from the VRA with respect to the January 1998 reduction of its power allocation. Valco and the VRA also are in continuing discussions concerning other matters, including steps that might be taken to reduce the likelihood of power curtailments in the future. No assurances can be given as to the success of these discussions.

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

Electric Power

Electric power represents an important production cost for KACC at its aluminum smelters. For a discussion of this subject, see "Factors Affecting Future Performance - Electric Power" in this Report.

- Flat-Rolled Products Business Unit

The flat-rolled products business unit operates the Trentwood, Washington, rolling mill. The Trentwood facility accounted for approximately 58% of KACC's 1998 fabricated aluminum products shipments. The business unit supplies the aerospace and general engineering markets (producing heat treat sheet and plate products), the beverage container market (producing body, lid, and tab stock), and the specialty coil markets (producing automotive brazing sheet, wheel, and tread products), both directly and through distributors. The Trentwood facility is one of the five KACC plants which is subject to the continuing USWA dispute. See "- Employees and Labor Matters" in this Report, and "Management's Discussion and Analysis of Financial Condition and Results of Operations - Labor Matters" in the Annual Report.

KACC continues to enhance the process and product mix of its Trentwood rolling mill in an effort to maximize its profitability and maintain full utilization of the facility. In 1998, KACC continued to implement a plan to improve the reliability and to expand the annual production capacity of heat treat flat-rolled products at the Trentwood facility by approximately one-third over 1996 levels. Approximately \$8.0 million remains to be spent to implement the plan. Global sales of KACC's heat treat products are made primarily to the aerospace and general engineering markets, and remained strong in the first half of 1998 after record shipments in 1997; demand for such products softened in the second half of 1998. In 1998, the business unit shipped products to approximately 141 customers in the aerospace, transportation, and industrial ("ATI") markets, most of which were distributors who sell to a variety of industrial end-users. The top five customers in the ATI markets for flat-rolled products accounted for approximately 18% of the business unit's revenue.

KACC's flat-rolled products are also sold to beverage container manufacturers located in the western United States and in the Asian Pacific Rim countries where the Trentwood plant's location provides KACC with a transportation advantage. Quality of products for the beverage container industry, service, and timeliness of delivery are the primary bases on which KACC competes. KACC is one of the highest quality producers of aluminum beverage can stock in the world. In 1998, the business unit had approximately 21 domestic and foreign can stock customers, supplying approximately 41 can plants worldwide. The largest and top five of such customers accounted for approximately 12% and 35%, respectively, of the business unit's revenue. See "- Competition" in this Report. The marketing staff for the business unit is located at the Trentwood facility and in Pleasanton, California. Sales are made directly to end-use customers and distributors from four sales offices in the United States, from a sales office in England, and by independent sales agents in Asia and Latin America.

The Micromill facility was constructed near Reno, Nevada, in 1996 as a demonstration and production facility. Micromill technology is based

on a proprietary thin-strip, high-speed, continuous-belt casting technique linked directly to hot and cold rolling mills. KACC is continuing its efforts to implement the Micromill technology on a full-scale basis. However, the Micromill technology has not yet been fully implemented or commercialized, and there can be no assurance that it will be successfully implemented and commercialized for use at full-scale facilities. KACC has decided to seek a strategic partner for further development and deployment of the Micromill technology. See "Management's Discussion and Analysis of Financial Condition and Results of Operations - Strategic Initiatives" and Note 3 of Notes to Consolidated Financial Statements in the Annual Report.

- Engineered Products Business Unit

The engineered products business unit operates soft-alloy and hard-alloy extrusion facilities and engineered component (forgings) facilities in the United States and Canada. Major markets for extruded products are in the transportation industry, to which the business unit provides extruded shapes for automobiles, trucks, trailers, cabs, and shipping containers, and in the distribution, durable goods, defense, building and construction, ordnance and electrical markets. The business unit supplies forged parts to customers in the automotive, commercial vehicle and ordnance markets. The high strength-to-weight properties of forged aluminum make it particularly well-suited for automotive applications. The business unit maintains its headquarters and a sales and engineering office in Southfield, Michigan, which works with automobile makers and other customers and plant personnel to create new automotive component designs and to improve existing products.

Soft-alloy extrusion facilities are located in Los Angeles, California; Sherman, Texas; Richmond, Virginia; and London, Ontario, Canada. Each of the soft-alloy extrusion facilities has fabricating capabilities and provides finishing services. The Richmond, Virginia, facility was acquired in mid-1997 and increased KACC's extruded products capacity and enhanced its existing extrusion business due to that facility's ability to manufacture seamless tubing and large circle size extrusions and to serve the distribution and ground transportation industries. Hard-alloy rod and bar extrusion facilities are located in Newark, Ohio, and Jackson, Tennessee, and produce screw machine stock, redraw rod, forging stock, and billet. The Newark facility is one of the five KACC plants which is subject to the continuing USWA dispute. See "- Labor Matters" in this Report, and "Management's Discussion and Analysis of Financial Condition and Results of Operations - Labor Matters" in the Annual Report. A facility located in Richland, Washington, produces seamless tubing in both hard and soft alloys for the automotive, other transportation, export, recreation, agriculture, and other industrial markets. The business unit also operates a cathodic protection business located in Tulsa, Oklahoma, that extrudes both aluminum and magnesium. The business unit operates forging facilities at Oxnard, California, and Greenwood, South Carolina, and a machine shop at Greenwood, South Carolina. KACC has entered into an agreement to sell its casting operations in Canton, Ohio.

In 1997 KACC and Accuride Corporation formed AKW L.P. to design, manufacture and sell heavy-duty aluminum truck wheels. In January 1999, KACC signed a letter of intent to sell its 50% interest in AKW to its partner, which would result in the Company recognizing a substantial gain. The Company expects the transaction to close on or about March 31, 1999; however, as the transaction is subject to certain conditions, no assurances can be given that the transaction will be consummated. See "Management's Discussion and Analysis of Financial Condition and Results of Operations - Strategic Initiatives" and Note 12 of Notes to Consolidated Financial Statements in the Annual Report.

In 1998, the engineered products business unit had approximately 445 customers, the largest and top five of which accounted for approximately 5% and 18%, respectively, of the business unit's revenue. See "- Competition" in this Report. Sales are made directly from plants, as well as marketing locations elsewhere in the United States.

Competition

KACC competes with both domestic and foreign producers of bauxite, alumina and primary aluminum, and with domestic and foreign fabricators. Many of KACC's competitors have greater financial resources than KACC. Primary aluminum and, to some degree, alumina are commodities with generally standard qualities, and competition in the sale of these commodities is based primarily upon price, quality and availability. Aluminum competes in many markets with steel, copper, glass, plastic, and other materials. In the United States, beverage container materials, including aluminum, face increased competition from plastics as increased polyethylene terephthalate ("PET") container capacity is brought on line by plastics manufacturers. KACC competes with numerous domestic and international fabricators in the sale of fabricated aluminum products. KACC manufactures and markets fabricated aluminum products for the transportation, packaging, construction, and consumer durables markets in the United States and abroad. Sales in these markets are made directly and through distributors to a large number of customers. Competition in the sale of fabricated products is based upon quality, availability, price and service, including delivery performance. KACC concentrates its fabricating operations on selected products in which it has production expertise, high-quality capability, and geographic and other competitive advantages. The Company believes that, assuming the current relationship between worldwide supply and demand for alumina and primary aluminum does not change materially, the loss of any one of KACC's customers, including intermediaries, would not have a material adverse effect on the Company's financial condition or results of operations.

See the discussion of competitive conditions, markets, and principal methods of competition in the description of each business unit under the headings "-Alumina Business Unit," "-Primary Aluminum Business Unit," "-Flat-Rolled Products Business Unit," and "-Engineered Products Business Unit" in this Report.

Research and Development

KACC conducts research and development activities principally at two facilities - CFT in Pleasanton, California, and the Northwest Engineering Center adjacent to the Mead smelter in Spokane, Washington. Net expenditures for Company-sponsored research and development activities were \$13.7 million in 1998, \$19.7 million in 1997, and \$20.5 million in 1996. KACC's research staff totaled 52 at December 31,

1998. KACC estimates that research and development net expenditures will be in the range of \$10 million to \$15 million in 1999.

CFT performs research and development of aluminum process and product technologies to support KACC's business units and new business opportunities. In 1998 patents were issued to KACC concerning the manufacture of continuous cast can sheet, the brazing of aluminum alloys for heat exchanger applications, improved lead-free aluminum machining alloys, and joining methods for aluminum extrusions used in transportation applications. In 1998 CFT continued to support the development of the Micromill technology deployed at the Micromill facility near Reno, Nevada, for the production of can sheet and other sheet products. The Northwest Engineering Center maintains specialized laboratories and a miniature carbon plant where experiments with new anode and cathode technology are performed. The Northwest Engineering Center supports KACC's primary aluminum smelters, and concentrates on the development of cost-effective technical innovations such as equipment and process improvements.

KACC licenses its technology and sells technical and managerial assistance to other producers worldwide. KACC's technology has been installed in alumina refineries, aluminum smelters and rolling mills located in the United States and fourteen foreign countries.

Employees

During 1998, KACC employed an average of approximately 9,200 persons, compared with an average of approximately 9,600 persons in 1997 and 1996. At December 31, 1998, KACC employed approximately 8,900 persons; this number does not include persons employed temporarily during the USWA labor dispute at the five facilities subject to the labor dispute.

In 1998, Alpart entered into a new three-year labor agreement with workers at its refinery in Jamaica, and Valco entered into a new three-year labor agreement with workers at its smelter in Ghana. Each agreement includes productivity improvements.

Environmental Matters

The Company and KACC are subject to a wide variety of international, federal, state and local environmental laws and regulations. For a discussion of this subject, see "Factors Affecting Future Performance - Environmental Contingencies and Asbestos Contingencies" in this Report.

Factors Affecting Future Performance

This section discusses certain factors that could cause actual results to vary, perhaps materially, from the results described in forward-looking statements made in this Report. Forward-looking statements in this Report are not guarantees of future performance and involve significant risks and uncertainties. Actual results may vary materially from those in such forward-looking statements as a result of factors including the effectiveness of management's strategies and decisions, general economic and business conditions, developments in technology, new or modified statutory or regulatory requirements, and changing prices and market conditions. No assurance can be given that these factors and the specific factors discussed below are all of the factors that could cause actual results to vary materially from the forward-looking statements.

- Sensitivity to Prices and Hedging Programs

The Company's operating results are sensitive to changes in the prices of alumina, primary aluminum, and fabricated aluminum products, and also depend to a significant degree upon the volume and mix of all products sold and on KACC's hedging strategies. Primary aluminum prices have historically been subject to significant cyclical fluctuations. Alumina prices, as well as fabricated aluminum product prices (which vary considerably among products), are significantly influenced by changes in the price of primary aluminum and generally lag behind primary aluminum prices. Since 1993, the Average Midwest United States transaction price (the "AMT Price") for primary aluminum has ranged from approximately \$.50 to \$1.00 per pound.

During 1998, the AMT Price per pound of primary aluminum declined during the year, beginning the year in the \$.70 to \$.75 range and ending the year in the low \$.60 range. Subsequent to 1998, the AMT Price continued to decline, and at February 26, 1999, the AMT Price was approximately \$.58 per pound.

From time to time in the ordinary course of business, KACC enters into hedging transactions to provide price risk management in respect of its net exposure resulting from (i) anticipated sales of alumina, primary aluminum, and fabricated aluminum products, less (ii) expected purchases of certain items, such as aluminum scrap, rolling ingot, and bauxite, whose prices fluctuate with the price of primary aluminum. No assurance can be given that KACC's hedging program will adequately reduce KACC's exposure to the risk of fluctuating primary aluminum prices.

KACC is exposed to energy price risk from fluctuating prices for fuel oil and natural gas consumed in the production process. From time to time in the ordinary course of business, KACC enters into hedging transactions with major suppliers of energy and energy related financial instruments. KACC also enters into foreign exchange contracts to hedge material cash commitments to foreign subsidiaries and affiliates. No assurance can be given that KACC's hedging program will adequately reduce KACC's exposure to the risk from fluctuating prices for fuel oil, natural gas, and foreign currencies.

Note 10 of Notes to Consolidated Financial Statements in the

Annual Report is incorporated herein by reference. See also "Quantitative and Qualitative Disclosures about Market Risk" in this Report, and Note 1 "- Derivative Financial Instruments" of Notes to Consolidated Financial Statements in the Annual Report.

- Leverage

The Company's ratio of consolidated indebtedness to consolidated net worth is greater than the comparable ratio of most of its North American competitors, who generally have greater financial resources than the Company. Due to its highly leveraged condition, the Company is more sensitive than less leveraged companies to certain factors affecting its operations, including changes in the prices for its products, changes in interest rates, and general economic conditions. See "Management's Discussion and Analysis of Financial Condition and Results of Operations - Financing Activities and Liquidity" in the Annual Report.

- Electric Power

The process of converting alumina into aluminum requires significant amounts of electric power, and the cost of electric power is an important production cost for KACC at its aluminum smelters. A portion of the electric power used at the Mead and Tacoma, Washington, smelters, as well as the rolling mill at Trentwood, Washington, is purchased from the Bonneville Power Administration (the "BPA") under contracts which expire in September 2001, and a portion of such electric power is purchased from other suppliers. KACC has long-term arrangements, expiring in 2015, with the BPA for the transmission of electric power by the BPA to those facilities. The amount of electric power which may be provided by the BPA to KACC after the expiration of the contracts in 2001 is not yet determined; however, the Company believes that adequate electric power will be available at that time, from the BPA and other suppliers, for the operation of its facilities in Washington. The electric power supplied to the Valco smelter in Ghana is produced by hydroelectric generators, and the delivery of electric power to the smelter is subject to interruption from time to time because of drought and other factors beyond the control of Valco. Such power is supplied under an agreement with the VRA which expires in 2017. The agreement indexes a portion of the price of power to the market price of primary aluminum and provides for a review and adjustment of the base power rate and the price index every five years. Such a review is now underway together with discussions concerning the reliability of the long-term supply of power. Electric power for the Anglesey smelter in Wales is supplied under an agreement which expires in 2001. KACC is working to address these power supply and power price issues; however, there can be no assurance that electric power at affordable prices will be available in the future for these smelters. See "Management's Discussion and Analysis of Financial Condition and Results of Operations - Valco Operating Level" in the Annual Report.

- Labor Matters

The material under the heading "Labor Matters" at page 2 of this Report is incorporated herein by reference.

In connection with the USWA strike and subsequent lock-out by KACC, certain allegations of unfair labor practices ("ULPs") have been filed with the National Labor Relations Board by the USWA and its members. KACC has responded to all such allegations and believes that they are without merit. If the allegations were sustained, KACC could be required to make locked-out employees whole for back wages from the date of the lock-out in January 1999. While uncertainties are inherent in the final outcome of such matters, the Company believes that the resolution of the alleged ULPs should not result in a material adverse impact on the Company's consolidated financial position, results of operations, or liquidity.

- Environmental Contingencies and Asbestos Contingencies

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

From time to time, KACC is subject, with respect to its current and former operations, to fines or penalties assessed for alleged breaches of the Environmental and Health Laws and to claims and litigation brought by federal, state or local agencies and by private parties seeking remedial or other enforcement action under the Environmental and Health Laws or damages related to alleged injuries to health or to the environment, including claims with respect to certain waste disposal sites and the remediation of sites presently or formerly operated by KACC. KACC currently is subject to certain lawsuits under the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended by the Superfund Amendments and Reauthorization Act of 1986 ("CERCLA"). KACC, along with certain other entities, has been named as a Potentially Responsible Party ("PRP") for remedial costs at certain third-party sites listed on the National Priorities List under CERCLA and, in certain instances, may be exposed to joint and several liability for those costs or damages to natural resources. KACC's Mead, Washington, facility has been listed on the National Priorities List under CERCLA. The Washington State Department of Ecology has advised KACC that there are several options for remediation at the Mead facility that would be acceptable to the Department. KACC expects that one of these remedial options will be agreed upon and incorporated into a Consent Decree. In addition, in connection with certain of its asset sales, KACC has agreed to indemnify the purchasers with respect to certain liabilities (and associated expenses) resulting from acts or omissions arising prior to such dispositions, including environmental liabilities.

Based on the Company's evaluation of these and other environmental matters, the Company has established environmental accruals, primarily related to potential solid waste disposal and soil and groundwater remediation matters. At December 31, 1998, the balance of such accruals,

which are primarily included in Long-term liabilities, was \$50.7 million. These environmental accruals represent the Company's estimate of costs reasonably expected to be incurred based on presently enacted laws and regulations, currently available facts, existing technology, and the Company's assessment of the likely remediation to be performed. The Company expects remediation to occur over the next several years and estimates that annual expenditures to be charged to these environmental accruals will be approximately \$3.0 million to \$8.0 million per year for the years 1999 through 2003 and an aggregate of approximately \$29.0 million thereafter. As additional facts are developed and definitive remediation plans and necessary regulatory approvals for implementation of remediation are established or alternative technologies are developed, changes in these and other factors may result in actual costs exceeding the current environmental accruals. Cash expenditures of \$3.5 million in 1998, \$5.6 million in 1997, and \$8.8 million in 1996 were charged to previously established accruals relating to environmental costs. Approximately \$4.5 million is expected to be charged to such accruals in 1999. In addition to cash expenditures charged to environmental accruals, environmental capital spending was \$5.7 million in 1998, \$6.8 million in 1997, and \$18.4 million in 1996. Annual operating costs for pollution control, not including corporate overhead or depreciation, were approximately \$34.3 million in 1998, \$27.5 million in 1997, and \$30.1 million in 1996. Legislative, regulatory and economic uncertainties make it difficult to project future spending for these purposes. However, the Company currently anticipates that in the 1999-2000 period, environmental capital spending will be approximately \$11.0 million per year, and operating costs for pollution control will be approximately \$38.0 million per year.

While uncertainties are inherent in the final outcome of these environmental matters, and it is presently impossible to determine the actual costs that ultimately may be incurred, the Company currently believes that the resolution of such uncertainties should not have a material adverse effect on the Company's consolidated financial position, results of operations, or liquidity.

KACC is a defendant in a number of lawsuits, some of which involve claims of multiple persons, in which the plaintiffs allege that certain of their injuries were caused by, among other things, exposure to asbestos during, and as a result of, their employment or association with KACC or exposure to products containing asbestos produced or sold by KACC. The lawsuits generally relate to products KACC has not manufactured for at least 20 years. See "Management's Discussion and Analysis of Financial Condition and Results of Operations - Commitments and Contingencies" in the Annual Report.

The portion of Note 9 of Notes to Consolidated Financial Statements in the Annual Report under the headings "Environmental Contingencies" and "Asbestos Contingencies" is incorporated herein by reference.

- Year 2000 Disclosure Statement The Company utilizes software and related technologies throughout its business that will be affected by the date change to the year 2000. There may also be technology embedded in certain of the equipment owned or used by the Company that is susceptible to the year 2000 date change as well. The Company has implemented a company-wide program to coordinate the year 2000 efforts of its individual business units and to track their progress. The intent of the program is to make sure that critical items are identified on a sufficiently timely basis to assure that the necessary resources can be committed to address any material risk areas that could prevent the Company's systems and assets from being able to meet the Company's business needs and objectives. In addition to addressing the Company's internal systems, the company-wide program involves identification of key suppliers, customers, and other third-party relationships that could be impacted by year 2000 issues.

While the Company believes that its program is sufficient to identify the critical issues and associated costs necessary to address possible year 2000 problems in a timely manner, there can be no assurances that the program, or underlying steps implemented, will be successful in resolving all such issues by the Company's mid-1999 goal. If the steps taken by the Company (or critical third parties) are not made in a timely manner, or are not successful in identifying and remediating all significant year 2000 issues, business interruptions or delays could occur and could have a material adverse impact on the Company's results and financial condition. However, based on the information the Company has gathered to date and the Company's expectations of its ability to remediate problems encountered, the Company currently believes that no significant business interruptions that would have a material impact on the Company's results or financial condition will be encountered. See "Management's Discussion and Analysis of Financial Condition and Results of Operations - Year 2000" in the Annual Report.

- Foreign Activities The Company's operations are located in several foreign countries, including Australia, Canada, Ghana, Jamaica, and the United Kingdom. Foreign operations, in general, may be more vulnerable than domestic operations because of a variety of political or governmental actions and other factors which may, for example, disrupt or restrict operations and markets, impose taxes and levies, impose import or export restrictions, restrict the movement of funds, or impose limitations on foreign exchange transactions. While the Company believes that its relationships with the governments of the countries in which it conducts operations directly or through joint ventures continue to be satisfactory, there can be no assurance as to the future influence of the foregoing factors.

ITEM 2. PROPERTIES

The locations and general character of the principal plants, mines, and other materially important physical properties relating to KACC's operations are described in Item 1 "- Business Operations" and those descriptions are incorporated herein by reference. KACC owns in fee or leases all the real estate and facilities used in connection with its business. Plants and equipment and other facilities are generally in good condition and suitable for their intended uses, subject to changing environmental requirements. Although KACC's domestic aluminum smelters and alumina facility were initially designed early in KACC's history, they have been modified frequently over the years to incorporate technological advances in order to improve efficiency, increase capacity, and achieve energy savings. The Company believes that KACC's plants are cost competitive on an international basis.

KACC's obligations under the Credit Agreement entered into on February 15, 1994, as amended (the "Credit Agreement"), are secured by, among other things, mortgages on KACC's major domestic plants (other than the Gramercy alumina refinery and Nevada Micromill). See Note

ITEM 3. LEGAL PROCEEDINGS

This section contains statements which constitute "forward- looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. See Item 1 in this Report for cautionary information with respect to such forward-looking statements.

Hammons v. Alcan Aluminum Corp. et al

On March 5, 1996, a class action complaint was filed against the Company, Alcan Aluminum Corp., Aluminum Company of America, Alumax, Inc, Reynolds Metal Company, and the Aluminum Association in the Superior Court of California for the County of Los Angeles, alleging that the defendants conspired, in violation of the California Cartwright Act (Bus. & Prof. Code Section 16720 & 16750), in conjunction with a Memorandum of Understanding ("MOU") entered into in 1994 by representatives of Australia, Canada, the European Union, Norway, the Russian Federation and the United States, to restrict the production of primary aluminum resulting in rises in prices for primary aluminum and aluminum products. The complaint sought certification of a class consisting of persons who at any time between January 1, 1994, and the date of the complaint purchased aluminum or aluminum products manufactured by one or more of the defendants and estimated damages sustained by the class to be \$4.4 billion during the year 1994, before trebling. On July 11, 1996, the United States District Court granted summary judgment in favor of the Company and other defendants and dismissed the complaint as to all defendants. On July 18, 1996, the plaintiff filed a notice of appeal to the United States Court of Appeals for the Ninth Circuit. On December 11, 1997, the United States Court of Appeals for the Ninth Circuit affirmed the decision of the District Court. On December 23, 1997, the plaintiff filed a petition for rehearing en banc, which was denied May 4, 1998. On August 12, 1998, the plaintiff filed a petition with the Supreme Court of the United States for a writ of certiorari, which petition was denied on October 19, 1998. The plaintiff subsequently requested reconsideration of its petition which was also denied.

Asbestos-related Litigation

KACC is a defendant in a number of lawsuits, some of which involve claims of multiple persons, in which the plaintiffs allege that certain of their injuries were caused by, among other things, exposure to asbestos during, and as a result of, their employment or association with KACC or exposure to products containing asbestos produced or sold by KACC. The lawsuits generally relate to products KACC has not manufactured for at least 20 years. For additional information, see "Management's Discussion and Analysis of Financial Condition and Results of Operations - Commitments and Contingencies" in the Annual Report. The portion of Note 9 of Notes to Consolidated Financial Statements in the Annual Report under the heading "Asbestos Contingencies" is incorporated herein by reference.

Labor Matters

In connection with the USWA strike and subsequent lock-out by KACC, certain allegations of unfair labor practices ("ULPs") have been filed with the National Labor Relations Board by the USWA and its members. KACC has responded to all such allegations and believes that they are without merit. If the allegations were sustained, KACC could be required to make locked-out employees whole for back wages from the date of the lock-out in January 1999. While uncertainties are inherent in the final outcome of such matters, the Company believes that the resolution of the alleged ULPs should not result in a material adverse impact on the Company's consolidated financial position, results of operations, or liquidity.

Other Matters

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

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

No matter was submitted to a vote of security holders of the Company during the fourth quarter of 1998.

PART II

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

The Company's Common Stock is traded on the New York Stock Exchange under the symbol "KLU". The number of record holders of the Company's Common Stock at March 23, 1999, was 337. Page 57 of the Annual Report, and the information in Note 5 of Notes to Consolidated Financial Statements under the heading "Loan Covenants and Restrictions" at page 39 of the Annual Report, are incorporated herein by reference. The Company has not paid any dividends on its Common Stock during the two most recent fiscal years.

The Credit Agreement (Exhibits 4.12 through 4.28 to this Report) contains restrictions on the ability of the Company to pay dividends on or

make distributions on account of the Company's Common Stock, and the Credit Agreement and the Indentures (Exhibits 4.1 through 4.11 to this Report) contain restrictions on the ability of the Company's subsidiaries to transfer funds to the Company in the form of cash dividends, loans or advances. Exhibits 4.1 through 4.28 to this Report, Note 5 of Notes to Consolidated Financial Statements in the Annual Report, and the information under the headings "Financing Activities and Liquidity" and "Capital Structure" at pages 25 - 26 of the Annual Report, are incorporated herein by reference.

ITEM 6. SELECTED FINANCIAL DATA

Selected financial data for the Company is incorporated herein by reference to the table at page 1 of this Report, to the table at pages 18 - 19 of the Annual Report, to Note 1 of Notes to Consolidated Financial Statements in the Annual Report, and to pages 58 - 59 of the Annual Report.

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

Pages 18 - 28 of the Annual Report are incorporated herein by reference.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

This section contains forward-looking statements that involve risk and uncertainties. Actual results could differ materially from those projected in these forward-looking statements.

As discussed more fully in Notes 1 and 10 of Notes to Consolidated Financial Statements, KACC utilizes hedging transactions to lock-in a specified price or range of prices for certain products which it sells or consumes and to mitigate KACC's exposure to changes in foreign currency exchange rates. The following sets forth the impact on future earnings of adverse market changes related to KACC's hedging positions with respect to commodity and foreign exchange contracts described more fully in Note 10 of Notes to Consolidated Financial Statements. The impact of market changes on energy derivative activities is generally not significant.

Alumina and Primary Aluminum

Alumina and primary aluminum production in excess of internal requirements is sold in domestic and international markets, exposing the Company to commodity price risks. KACC's hedging transactions are intended to provide price risk management in respect of the net exposure of earnings resulting from (i) anticipated sales of alumina, primary aluminum and fabricated aluminum products, less (ii) expected purchases of certain items, such as aluminum scrap, rolling ingot, and bauxite, whose prices fluctuate with the price of primary aluminum. On average, before consideration of hedging activities, any fixed price contracts with fabricated aluminum products customers, variations in production and shipment levels, and timing issues related to price changes the Company estimates that each \$.01 increase (decrease) in the market price per price-equivalent pound of primary aluminum increases (decreases) the Company's annual pre-tax earnings by approximately \$15 million.

Based on the December 31, 1998 London Metal Exchange cash price for primary aluminum of approximately 56 cents per pound, the Company estimates that it would realize approximately \$100 million of net aggregate pre-tax benefits from its hedging positions and fixed price customer contracts during 1999 and 2000. The Company also estimates that a hypothetical 10 cent decrease from the above stated year-end 1998 price level would result in additional net aggregate pre-tax benefits of approximately \$150 million being realized during 1999 and 2000 related to KACC's hedging positions and fixed price customer contracts. Both amounts are versus what the Company's results would have been without the derivative commodity contracts and fixed price customer contracts discussed above. Conversely, the Company estimates that a hypothetical 10 cent increase from the above stated year-end 1998 price would result in a net aggregate reduction to pre-tax earnings of approximately \$20 million being realized during 1999 and 2000 related to KACC's hedging positions and fixed price customer contracts. It should be noted, however, that, since the hedging positions and fixed price customer contracts lock-in a specified price or range of prices, any increase or decrease in earnings attributable to KACC's hedging positions or fixed price customer contracts would be significantly offset by a decrease or increase in the value of the hedged transactions.

The foregoing estimated earnings impact on 2000 excludes the possible effect on pre-tax income of Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities," which must be adopted by the Company as of January 1, 2000. The foregoing estimate of a hypothetical 10 cent-per-pound increase in primary aluminum prices on KACC's hedging positions and fixed price customer contracts excludes the cash impact of possible margin deposit requirements. The Company estimates that KACC's cash exposure related to margin deposit requirements on such positions, if such a hypothetical price increase were to occur, would not have a material adverse impact on the Company's current liquidity or financial position.

Foreign Currency

KACC enters into forward exchange contracts to hedge material cash commitments for foreign currencies. KACC's primary foreign exchange exposure is related to KACC's Australian Dollar (A\$) commitments in respect of activities associated with its 28.3%- owned affiliate, Queensland Alumina Limited. The Company estimates that, before consideration of any hedging activities, a US \$0.01 increase (decrease) in the value of the A\$ results in an approximate \$1-2 million (decrease) increase in the Company's annual pre-tax earnings.

At December 31, 1998, the Company held derivative foreign currency contracts hedging approximately 75% and 50% of its A\$ currency commitments for 1999 and 2000, respectively. The Company estimates that a hypothetical 10% reduction in the A\$ exchange rate would result

in the Company recognizing a net aggregate pre-tax cost of approximately \$10-15 million during 1999 and 2000 related to KACC's foreign currency hedging positions. This cost is versus what the Company's results would have been without the Company's derivative foreign currency contracts. It should be noted, however, that, since the hedging positions lock-in specified rates, any increase or decrease in earnings attributable to currency hedging instruments would be offset by a corresponding decrease or increase in the value of the hedged commitments.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Pages 29 - 57 of the Annual Report are incorporated herein by reference.

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

None.

PART III

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

PART IV

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

(a) INDEX TO FINANCIAL STATEMENTS AND SCHEDULES

1. Financial Statements

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

2. Financial Statement Schedules Page

Report of Independent Public Accountants	17
Schedule I - Condensed Balance Sheets - Parent Company, Condensed Statements of Income - Parent Company, Condensed Statements of Cash Flows - Parent Company, and Notes to Condensed Financial	

Statements - Parent Company 18-21

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

3. Exhibits

Reference is made to the Index of Exhibits immediately preceding the exhibits hereto (beginning on page 23), which index is incorporated herein by reference.

(b) REPORTS ON FORM 8-K

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

(c) EXHIBITS

Reference is made to the Index of Exhibits immediately preceding the exhibits hereto (beginning on page 23), which index is incorporated herein by reference.

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

We have audited in accordance with generally accepted auditing standards, the financial statements included in Kaiser Aluminum Corporation and Subsidiary Companies' annual report to shareholders incorporated by reference in this Form 10-K, and have issued our report thereon dated February 28, 1999. Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. Schedule I listed in the index at Item 14(a)2. above is the responsibility of the Company's management and is presented for purposes of complying with the Securities and Exchange Commission's rules and is not a required part of the basic financial statements. This schedule has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, fairly states in all material respects the financial data required to be set forth therein in relation to the basic financial statements taken as a whole.

ARTHUR ANDERSEN LLP

Houston, Texas
February 28, 1999

**SCHEDULE I
CONDENSED BALANCE SHEETS - PARENT COMPANY**

(In millions of dollars, except share amounts)

	December 31,	
	----- 1998	1997 -----
ASSETS		
Investment in KACC	\$ 1,913.3	\$ 1,802.8
	-----	-----
Total	\$ 1,913.3	\$ 1,802.8
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities	\$ -	\$ 3.2
Intercompany note payable to KACC, including accrued interest	1,794.1	1,682.6
Stockholders' equity:		
Common stock, par value \$.01, authorized 100,000,000 shares; issued and outstanding 79,153,543 and 78,980,881 in 1998 and 1997	.8	.8
Additional capital	535.4	533.8
Accumulated deficit	(417.0)	(417.6)
	-----	-----
Total stockholders' equity	119.2	117.0
	-----	-----
Total	\$ 1,913.3	\$ 1,802.8
	=====	=====

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

**SCHEDULE I
CONDENSED STATEMENTS OF INCOME - PARENT COMPANY**

(In millions of dollars)

	December 31,		
	----- 1998	1997	1996 -----
Equity in income of KACC	\$ 112.5	\$ 154.2	\$ 108.7
Administrative and general expense	(.4)	(1.7)	(2.2)
Interest expense	(111.5)	(104.5)	(98.3)
	-----	-----	-----
Net income	\$.6	\$ 48.0	\$ 8.2
	=====	=====	=====

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

**SCHEDULE I
CONDENSED STATEMENTS OF CASH FLOWS - PARENT COMPANY**

(In millions of dollars)

	December 31,		
	1998	1997	1996
Cash flows from operating activities:			
Net income	\$.6	\$ 48.0	\$ 8.2
Adjustments to reconcile net income to net cash used for operating activities:			
Equity in income of KACC	(112.5)	(154.2)	(108.7)
Accrued interest on intercompany note payable to KACC	111.5	104.5	98.3
Accrued taxes paid	(3.3)	(1.8)	(2.7)
Net cash used for operating activities	(3.7)	(3.5)	(4.9)
Cash flows from investing activities:			
Investment in KACC	(.1)	(.3)	(.1)
Net cash used for investing activities	(.1)	(.3)	(.1)
Cash flows from financing activities:			
Dividends paid	-	(4.2)	(10.5)
Capital stock issued	.1	.4	.1
Payments from KACC on intercompany note receivable	-	4.2	10.5
Tax allocation payments from KACC	3.3	1.8	2.7
Operating cost advances from KACC	.4	1.6	2.0
Net cash provided by financing activities	3.8	3.8	4.8
Net (decrease) increase in cash and cash equivalents during the year	-	-	(.2)
Cash and cash equivalents at beginning of year	-	-	.2
Cash and cash equivalents at end of year	\$ -	\$ -	\$ -
Supplemental disclosure of non-cash investing activities:			
Non-cash (decrease) increase in investment in KACC	\$ (1.7)	\$ 4.4	\$ -

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

SCHEDULE I NOTES TO CONDENSED FINANCIAL STATEMENTS - PARENT COMPANY

1. BASIS OF PRESENTATION

Kaiser Aluminum Corporation (the "Company") is a holding company and conducts its operations through its wholly owned subsidiary, Kaiser Aluminum & Chemical Corporation ("KACC"), which is reported herein using the equity method of accounting. The accompanying parent company condensed financial statements of the Company should be read in conjunction with the 1998 consolidated financial statements of Kaiser Aluminum Corporation and Subsidiary Companies ("Kaiser").

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

2. INTERCOMPANY NOTE PAYABLE

The Intercompany Note to KACC, as amended, provides for a fixed interest rate of 6-5/8%. No interest or principal payments are due until December 31, 2000, after which interest and principal will be payable over a 15-year term pursuant to a predetermined schedule.

3. RESTRICTED NET ASSETS

The investment in KACC is substantially unavailable to the Company pursuant to the terms of certain debt instruments. The obligations of KACC in respect of the credit facilities under the Credit Agreement are guaranteed by the Company and substantially by all significant subsidiaries of KACC. See Note 5 of Notes to Kaiser's Consolidated Financial Statements.

SIGNATURES

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

KAISER ALUMINUM CORPORATION

Date: March 30, 1999 By George T. Haymaker, Jr.
George T. Haymaker, Jr.
Chairman of the Board
and Chief Executive Officer

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

Date: March 30, 1999 George T. Haymaker, Jr.
George T. Haymaker, Jr.
Chairman of the Board
and Chief Executive Officer
(Principal Executive Officer)

Date: March 30, 1999 John T. La Duc
John T. La Duc
Executive Vice President and
Chief Financial Officer
(Principal Financial Officer)

Date: March 30, 1999 Daniel D. Maddox
Daniel D. Maddox
Vice President and Controller
(Principal Accounting Officer)

Date: March 30, 1999 Robert J. Cruikshank
Robert J. Cruikshank
Director

Date: March 30, 1999 Charles E. Hurwitz
Charles E. Hurwitz
Director

Date: March 30, 1999 Ezra G. Levin
Ezra G. Levin
Director

Date: March 30, 1999 Robert Marcus
Robert Marcus
Director

Date: March 30, 1999 Robert J. Petris
Robert J. Petris
Director

INDEX OF EXHIBITS

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

Corporation, dated October 1, 1997 (incorporated by reference to Exhibit 3.3 to the Report on Form 10-Q for the quarterly period ended September 30, 1997, filed by KAC, File No. 1-9447).

- 4.1 Indenture, dated as of February 1, 1993, among Kaiser Aluminum & Chemical Corporation ("KACC"), as Issuer, Kaiser Alumina Australia Corporation, Alpart Jamaica Inc., and Kaiser Jamaica Corporation, as Subsidiary Guarantors, and The First National Bank of Boston, as Trustee, regarding KACC's 12-3/4% Senior Subordinated Notes Due 2003 (incorporated by reference to Exhibit 4.1 to Form 10-K for the period ended December 31, 1992, filed by KACC, File No. 1-3605).
- 4.2 First Supplemental Indenture, dated as of May 1, 1993, to the Indenture, dated as of February 1, 1993 (incorporated by reference to Exhibit 4.2 to the Report on Form 10-Q for the quarterly period ended June 30, 1993, filed by KACC, File No. 1-3605).
- 4.3 Second Supplemental Indenture, dated as of February 1, 1996, to the Indenture, dated as of February 1, 1993 (incorporated by reference to Exhibit 4.3 to the Report on Form 10-K for the period ended December 31, 1995, filed by KAC, File No. 1-9447).
- 4.4 Third Supplemental Indenture, dated as of July 15, 1997, to the Indenture, dated as of February 1, 1993 (incorporated by reference to Exhibit 4.1 to the report on Form 10-Q for the quarterly period ended June 30, 1997, filed by KAC, File No. 1-9447).
- 4.5 Indenture, dated as of February 17, 1994, among KACC, as Issuer, Kaiser Alumina Australia Corporation, Alpart Jamaica Inc., Kaiser Jamaica Corporation, and Kaiser Finance Corporation, as Subsidiary Guarantors, and First Trust National Association, as Trustee, regarding KACC's 9-7/8% Senior Notes Due 2002 (incorporated by reference to Exhibit 4.3 to the Report on Form 10-K for the period ended December 31, 1993, filed by KAC, File No. 1-9447).
- 4.6 First Supplemental Indenture, dated as of February 1, 1996, to the Indenture, dated as of February 17, 1994 (incorporated by reference to Exhibit 4.5 to the Report on Form 10-K for the period ended December 31, 1995, filed by KAC, File No. 1-9447).
- 4.7 Second Supplemental Indenture, dated as of July 15, 1997, to the Indenture, dated as of February 17, 1994 (incorporated by reference to Exhibit 4.2 to the report on Form 10-Q for the quarterly period ended June 30, 1997, filed by KAC, File No. 1-9447).
- 4.8 Indenture, dated as of October 23, 1996, among KACC, as Issuer, Kaiser Alumina Australia Corporation, Alpart Jamaica Inc., Kaiser Jamaica Corporation, Kaiser Finance Corporation, Kaiser Micromill Holdings, LLC, Kaiser Sierra Micromills, LLC, Kaiser Texas Micromill Holdings, LLC and Kaiser Texas Sierra Micromills, LLC, as Subsidiary Guarantors, and First Trust National Association, as Trustee, regarding KACC's 10-7/8% Series B Senior Notes Due 2006 (incorporated by reference to Exhibit 4.2 to the Report on Form 10-Q for the quarterly period ended September 30, 1996, filed by KAC, File No. 1-9447).
- 4.9 First Supplemental Indenture, dated as of July 15, 1997, to the Indenture, dated as of October 23, 1996 (incorporated by reference to Exhibit 4.3 to the Report on Form 10-Q for the quarterly period ended June 30, 1997, filed by KAC, File No. 1-9447).
- 4.10 Indenture, dated as of December 23, 1996, among KACC, as Issuer, Kaiser Alumina Australia Corporation, Alpart Jamaica Inc., Kaiser Jamaica Corporation, Kaiser Finance Corporation, Kaiser Micromill Holdings, LLC, Kaiser Sierra Micromills, LLC, Kaiser Texas Micromill Holdings, LLC, and Kaiser Texas Sierra Micromills, LLC, as Subsidiary Guarantors, and First Trust National Association, as Trustee, regarding KACC's 10 7/8%

Series D Senior Notes due 2006 (incorporated by reference to Exhibit 4.4 to the Registration Statement on Form S-4, dated January 2, 1997, filed by KACC, Registration No. 333-19143).

- 4.11 First Supplemental Indenture, dated as of July 15, 1997, to the Indenture, dated as of December 23, 1996 (incorporated by reference to Exhibit 4.4 to the Report on Form 10-Q for the quarterly period ended June 30, 1997, filed by KAC, File No. 1-9447).
- 4.12 Credit Agreement, dated as of February 15, 1994, among KAC, KACC, the financial institutions a party thereto, and BankAmerica Business Credit, Inc., as Agent (incorporated by reference to Exhibit 4.4 to the Report on Form 10-K for the period ended December 31, 1993, filed by KAC, File No. 1-9447).
- 4.13 First Amendment to Credit Agreement, dated as of July 21, 1994, amending the Credit Agreement, dated as of February 15, 1994, among KAC, KACC, the financial institutions party thereto, and BankAmerica Business Credit, Inc., as Agent (incorporated by reference to Exhibit 4.1 to the Report on Form 10-Q for the quarterly period ended June 30, 1994, filed by KAC, File No. 1-9447).
- 4.14 Second Amendment to Credit Agreement, dated as of March 10, 1995, amending the Credit Agreement, dated as of February 15, 1994, as amended, among KAC, KACC, the financial institutions party thereto, and BankAmerica Business Credit, Inc., as Agent (incorporated by reference to Exhibit 4.6 to the Report on Form 10-K for the period ended December 31, 1994, filed by KAC, File No. 1-9447).
- 4.15 Third Amendment to Credit Agreement, dated as of July 20, 1995, amending the Credit Agreement, dated as of February 15, 1994, as amended, among KAC, KACC, the financial institutions a party thereto, and BankAmerica Business Credit, Inc., as Agent (incorporated by reference to Exhibit 4.1 to the Report on Form 10-Q for the quarterly period ended June 30, 1995, filed by KAC, File No. 1-9447).
- 4.16 Fourth Amendment to Credit Agreement, dated as of October 17, 1995, amending the Credit Agreement, dated as of February 15, 1994, as amended, among KAC, KACC, the financial institutions a party thereto, and BankAmerica Business Credit, Inc., as Agent (incorporated by reference to Exhibit 4.1 to the Report on Form 10-Q for the quarterly period ended September 30, 1995, filed by KAC, File No. 1-9447).
- 4.17 Fifth Amendment to Credit Agreement, dated as of December 11, 1995, amending the Credit Agreement, dated as of February 15, 1994, as amended, among KAC, KACC, the financial institutions a party thereto, and BankAmerica Business Credit, Inc., as Agent (incorporated by reference to Exhibit 4.11 to the Report on Form 10-K for the period ended December 31, 1995, filed by KAC, File No. 1-9447).
- 4.18 Sixth Amendment to Credit Agreement, dated as of October 1, 1996, amending the Credit Agreement, dated as of February 15, 1994, as amended, among KAC, KACC, the financial institutions a party thereto, and BankAmerica Business Credit, Inc., as Agent (incorporated by reference to Exhibit 4.1 to the Report on Form 10-Q for the quarterly period ended September 30, 1996, filed by KAC, File No. 1-9447).
- 4.19 Seventh Amendment to Credit Agreement, dated as of December 17, 1996, amending the Credit Agreement, dated as of February 15, 1994, as amended, among KAC, KACC, the financial institutions a party thereto, and BankAmerica Business Credit, Inc., as Agent (incorporated by reference to Exhibit 4.18 to the Registration Statement on Form S-4, dated January 2, 1997, filed by KACC, Registration No. 333-19143).
- 4.20 Eighth Amendment to Credit Agreement, dated as of

- February 24, 1997, amending the Credit Agreement, dated as of February 15, 1994, as amended, among KACC, Kaiser, the financial institutions a party thereto, and BankAmerica Business Credit, Inc., as Agent (incorporated by reference to Exhibit 4.16 to the Report on Form 10-K for the period ended December 31, 1996, filed by KAC, File No. 1-9447).
- 4.21 Ninth Amendment to Credit Agreement, dated as of April 21, 1997, amending the Credit Agreement, dated as of February 15, 1994, as amended, among KACC, KAC, the financial institutions a party thereto, and BankAmerica Business Credit, Inc., as Agent (incorporated by reference to Exhibit 4.5 to the Report on Form 10-Q for the quarterly period ended June 30, 1997, filed by KAC, File No. 1-9447).
- 4.22 Tenth amendment to Credit Agreement, dated as of June 25, 1997, amending the Credit Agreement, dated as of February 15, 1994, as amended, among KACC, KAC, the financial institutions a party thereto, and BankAmerica Business Credit, Inc., as Agent (incorporated by reference to Exhibit 4.6 to the Report on Form 10-Q for the quarterly period ended June 30, 1997, filed by KAC, File No. 1-9447).
- 4.23 Eleventh Amendment to Credit Agreement, dated as of October 20, 1997, amending the Credit Agreement, dated as of February 15, 1994, as amended, among KACC, KAC, the financial institutions a party thereto, and BankAmerica Business Credit, Inc., as Agent (incorporated by reference to Exhibit 4.7 to the Report on Form 10-Q for the quarterly period ended September 30, 1997, filed by KAC, File No. 1-9447).
- 4.24 Twelfth Amendment to Credit Agreement, dated as of January 13, 1998, amending the Credit Agreement, dated as of February 15, 1994, as amended, among KACC, KAC, the financial institutions a party thereto, and BankAmerica Business Credit, Inc., as Agent (incorporated by reference to Exhibit 4.24 to the Report on Form 10-K for the period ended December 31, 1997, filed by KAC, File No. 1-9447).
- 4.25 Thirteenth Amendment to Credit Agreement, dated as of July 20, 1998, amending the Credit Agreement, dated as of February 15, 1994, as amended, among KACC, KAC, the financial institutions party thereto, and BankAmerica Business Credit, Inc., as Agent (incorporated by reference to Exhibit 4 to the report on Form 10-Q for the quarterly period ended June 30, 1998, filed by KAC, File No. 1-9447).
- *4.26 Fourteenth Amendment to Credit Agreement, dated as of December 11, 1998, amending the Credit Agreement, dated as of February 15, 1994, as amended, among KACC, KAC, the financial institutions party thereto, and BankAmerica Business Credit, Inc., as Agent.
- *4.27 Fifteenth Amendment to Credit Agreement, dated as of February 23, 1999, amending the Credit Agreement, dated as of February 15, 1994, as amended, among KACC, KAC, the financial institutions party thereto, and BankAmerica Business Credit, Inc., as Agent.
- *4.28 Sixteenth Amendment to Credit Agreement, dated as of March 26, 1999, amending the Credit Agreement, dated as of February 15, 1994, as amended, among KACC, KAC, the financial institutions party thereto, and BankAmerica Business Credit, Inc., as Agent.
- 4.29 Intercompany Note between KAC and KACC (incorporated by reference to Exhibit 10.11 to the Report on Form 10-K for the period ended December 31, 1996, filed by MAXXAM Inc. ("MAXXAM"), File No. 1-3924).
- 4.30 Confirmation of Amendment of Non-Negotiable Intercompany Note, dated as of October 6, 1993, between KAC and KACC (incorporated by reference to Exhibit 10.12 to the Report on Form 10-K for the period ended December 31, 1996, filed by MAXXAM, File No. 1-3924).

- 4.31 Senior Subordinated Intercompany Note between KAC and KACC dated February 15, 1994 (incorporated by reference to Exhibit 4.22 to the Report on Form 10-K for the period ended December 31, 1993, filed by KAC, File No. 1-9447).
- 4.32 Senior Subordinated Intercompany Note between KAC and KACC dated March 17, 1994 (incorporated by reference to Exhibit 4.23 to the Report on Form 10-K for the period ended December 31, 1993, filed by KAC, File No. 1-9447).
- KAC has not filed certain long-term debt instruments not being registered with the Securities and Exchange Commission where the total amount of indebtedness authorized under any such instrument does not exceed 10% of the total assets of KAC and its subsidiaries on a consolidated basis. KAC agrees and undertakes to furnish a copy of any such instrument to the Securities and Exchange Commission upon its request.
- 10.1 Form of indemnification agreement with officers and directors (incorporated by reference to Exhibit (10)(b) to the Registration Statement of KAC on Form S-4, File No. 33-12836).
- 10.2 Tax Allocation Agreement, dated as of December 21, 1989, between MAXXAM and KACC (incorporated by reference to Exhibit 10.21 to Amendment No. 6 to the Registration Statement on Form S-1, dated December 14, 1989, filed by KACC, Registration No. 33-30645).
- 10.3 Tax Allocation Agreement, dated as of February 26, 1991, between KAC and MAXXAM (incorporated by reference to Exhibit 10.23 to Amendment No. 2 to the Registration Statement on Form S-1, dated June 11, 1991, filed by KAC, Registration No. 33-37895).
- 10.4 Tax Allocation Agreement, dated as of June 30, 1993, between KACC and KAC (incorporated by reference to Exhibit 10.3 to the Report on Form 10-Q for the quarterly period ended June 30, 1993, filed by KACC, File No. 1-3605).
- Executive Compensation Plans and Arrangements
[Exhibits 10.5 - 10.23, inclusive]
- 10.5 KACC's Bonus Plan (incorporated by reference to Exhibit 10.25 to Amendment No. 6 to the Registration Statement on Form S-1, dated December 14, 1989, filed by KACC, Registration No. 33-30645).
- 10.6 Kaiser 1993 Omnibus Stock Incentive Plan (incorporated by reference to Exhibit 10.1 to the Report on Form 10-Q for the quarterly period ended June 30, 1993, filed by KACC, File No. 1-3605).
- 10.7 Kaiser 1995 Employee Incentive Compensation Program (incorporated by reference to Exhibit 10.1 to the Report on Form 10-Q for the quarterly period ended March 31, 1995, filed by KAC, File No. 1-9447).
- 10.8 Kaiser 1995 Executive Incentive Compensation Program (incorporated by reference to Exhibit 99 to the Proxy Statement, dated April 26, 1995, filed by KAC, File No. 1-9447).
- 10.9 Kaiser 1997 Omnibus Stock Incentive Plan (incorporated by reference to Appendix A to the Proxy Statement, dated April 29, 1997, filed by KAC, File No. 1-9447).
- 10.10 Employment Agreement, dated April 1, 1993, among KAC, KACC, and George T. Haymaker, Jr. (incorporated by reference to Exhibit 10.2 to the Report on Form 10-Q for the quarterly period ended March 31, 1993, filed by KAC, File No. 1-9447).
- 10.11 First Amendment to Employment Agreement by and between KACC, KAC and George T. Haymaker, Jr. (incorporated by reference to Exhibit 10 to the Report on Form 10-Q for the quarterly period ended June 30, 1996, filed by KAC, File No. 1-9447).

- 10.12 Second Amendment to Employment Agreement, dated as of December 10, 1997, by and between KAC, KACC, and George T. Haymaker, Jr. (incorporated by reference to Exhibit 10.12 to the Report on Form 10-K for the period ended December 31, 1997, filed by KAC, File No. 1-9447).
- 10.13 Letter Agreement, dated January 1995, between KAC and Charles E. Hurwitz, granting Mr. Hurwitz stock options under the Kaiser 1993 Omnibus Stock Incentive Plan (incorporated by reference to Exhibit 10.17 to the Report on Form 10-K for the period ended December 31, 1994, filed by KAC, File No. 1-9447).
- 10.14 Employment Agreement between KACC and Raymond J. Milchovich made effective for the period from January 1, 1998, to December 31, 2002 (incorporated by reference to Exhibit 10.3 to the Report on Form 10-Q for the quarterly period ended September 30, 1998, filed by KAC, File No. 1-9447).
- 10.15 Time-Based Stock Option Grant Pursuant to the Kaiser 1997 Omnibus Stock Incentive Plan to Raymond J. Milchovich, effective July 2, 1998 (incorporated by reference to Exhibit 10.4 to the Report on Form 10-Q for the quarterly period ended September 30, 1998, filed by KAC, File No. 1-9447).
- 10.16 Employment Agreement between KACC and John T. La Duc made effective for the period from January 1, 1998, to December 31, 2002 (incorporated by reference to Exhibit 10.5 to the Report on Form 10-Q for the quarterly period ended September 30, 1998, filed by KAC, File No. 1-9447).
- 10.17 Time-Based Stock Option Grant Pursuant to the Kaiser 1997 Omnibus Stock Incentive Plan to John T. La Duc, effective July 10, 1998 (incorporated by reference to Exhibit 10.6 to the Report on Form 10-Q for the quarterly period ended September 30, 1998, filed by KAC, File No. 1-9447).
- *10.18 Time-Based Stock Option Grant Pursuant to the Kaiser 1997 Omnibus Stock Incentive Plan to George T. Haymaker, Jr., effective January 1, 1998.
- *10.19 Performance-Accelerated Stock Option Grant Pursuant to the Kaiser 1997 Omnibus Stock Incentive Plan to George T. Haymaker, Jr., effective January 1, 1998.
- *10.20 Letter Agreement, dated July 27, 1998, between KACC and John H. Walker.
- *10.21 Description of Kaiser Severance Protection and Change of Control Benefits Program.
- 10.22 Form of letter agreement with persons granted stock options under the Kaiser 1993 Omnibus Stock Incentive Plan to acquire shares of KAC Common Stock (incorporated by reference to Exhibit 10.18 to the Report on Form 10-K for the period ended December 31, 1994, filed by KAC, File No. 1-9447).
- 10.23 Form of Deferred Fee Agreement between KAC, KACC, and directors of KAC and KACC (incorporated by reference to Exhibit 10 to the Report on Form 10-Q for the quarterly period ended March 31, 1998, filed by KAC, File No. 1-9447).
- *13 The portions of KAC's Annual Report to shareholders for the year ended December 31, 1998, which are incorporated by reference into this Report.
- *21 Significant Subsidiaries of KAC.
- *23.1 Consent of Independent Public Accountants.
- *23.2 Consent of Wharton Levin Ehrmantraut Klein & Nash, P.A.
- *23.3 Consent of Heller Ehrman White & McAuliffe.
- *27 Financial Data Schedule.

* Filed herewith

Exhibit 21

SUBSIDIARIES

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

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

Principal	California	South Carolina
	-----	-----
Domestic	Los Angeles (City	Greenwood
Operations	of Commerce)	Engineered Products
	Engineered	Greenwood
and	Products	Engineered Products
Administrative	Oxnard	Machine Shop
	Engineered	Tennessee
Offices	Products	-----
(Partial List)	Pleasanton	Jackson
	R&D at the Center	Engineered Products
	for Technology,	Texas
	Administrative	-----
	Offices	Houston
		Kaiser Aluminum
	Louisiana	Corporation
	-----	Headquarters
	Baton Rouge	Sherman
	Alumina Business	Engineered Products
	Unit Offices	Virginia
	Gramercy	-----
	Alumina	Richmond
	Michigan	Engineered Products
	-----	Washington
	Detroit	-----
	(Southfield)	Mead
	Automotive	Primary Aluminum,
	Product	Northwest Engineering
	Development and	Center
	Sales	Richland
	Ohio	Engineered Products
	-----	Tacoma
	Canton*	Primary Aluminum
	Engineered	Trentwood
	Products	Flat-Rolled Products
	Cuyahoga Falls	
	(50%)*	
	Engineered	
	Products	
	Newark	
	Engineered	
	Products	
	Oklahoma	

	Tulsa	

Engineered
Products
Pennsylvania

Erie (50%)*
Engineered
Products

* In separate announcements in early 1999, the Company said it had signed agreements to sell its interests in the assets located at Canton, Cuyahoga Falls, and Erie.

Principal	Australia	Jamaica
Worldwide Operations (Partial List)	Queensland Alumina Limited (28.3%) Alumina Canada ----- Kaiser Aluminum & Chemical of Canada Limited (100%) Engineered Products Ghana ----- Volta Aluminium Company Limited (90%) Primary Aluminum	Alumina Partners of Jamaica (65%) Bauxite, Alumina Kaiser Jamaica Bauxite Company (49%) Bauxite Wales, United Kingdom ----- Anglesey Aluminium Limited (49%) Primary Aluminum

KAISER ALUMINUM CORPORATION AND SUBSIDIARY COMPANIES

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

Kaiser Aluminum Corporation ("Kaiser" or the "Company"), through its wholly owned subsidiary, Kaiser Aluminum & Chemical Corporation ("KACC"), operates in all principal aspects of the aluminum industry through the following business segments: Bauxite and alumina, Primary aluminum, Flat-rolled products and Engineered products. The Company uses a portion of its bauxite, alumina, and primary aluminum production for additional processing at certain of its downstream facilities. Intersegment transfers are valued at estimated market prices. The table below provides selected operational and financial information on a consolidated basis with respect to the Company for the years ended December 31, 1998, 1997, and 1996. This information is presented in a different format from that used in prior years as a result of the Company's adoption of Statement of Financial Accounting Standards No.131 as of December 31, 1998. Prior year information has been restated to conform to the Company's new presentation format. The following data should be read in conjunction with the Company's consolidated financial statements and the notes thereto, contained elsewhere herein. See Note 11 of Notes to Consolidated Financial Statements for further information regarding segments. (All references to tons refer to metric tons of 2,204.6 pounds.)

(In millions of dollars, except shipments and prices)	Year Ended December 31,		
	1998	1997	1996
Shipments: (000 tons)			
Alumina			
Third Party	2,250.0	1,929.8	2,073.7
Intersegment	750.7	968.0	912.4
Total Alumina	3,000.7	2,897.8	2,986.1
Primary Aluminum			
Third Party	263.2	327.9	355.6
Intersegment	162.8	164.2	128.3
Total Primary Aluminum	426.0	492.1	483.9
Flat-Rolled Products	235.6	247.9	204.8
Engineered Products	169.4	152.1	122.3
Average Realized Third Party Sales Price: (1)			
Alumina (per ton)	\$ 197	\$ 198	\$ 195
Primary Aluminum (per pound)	\$ 0.71	\$ 0.75	\$ 0.69
Net Sales:			
Bauxite and Alumina			
Third Party (includes net sales of bauxite)	\$ 472.7	\$ 411.7	\$ 431.0
Intersegment	135.8	201.7	194.1
Total Bauxite & Alumina	608.5	613.4	625.1
Primary Aluminum			
Third Party	409.8	543.4	538.3
Intersegment	233.5	273.8	217.4
Total Primary Aluminum	643.3	817.2	755.7
Flat-Rolled Products	714.6	743.3	626.0
Engineered Products	581.3	581.0	504.4
Minority Interests	78.0	93.8	90.8
Eliminations	(369.3)	(475.5)	(411.5)
Total Net Sales	\$ 2,256.4	\$ 2,373.2	\$ 2,190.5
Operating Income (Loss):			
Bauxite & Alumina (2)	\$ 42.0	\$ 54.2	\$ 27.7
Primary Aluminum (2)	49.9	148.3	79.1
Flat-Rolled Products (2) (3)	70.8	28.2	35.3
Engineered Products (2) (3)	47.5	42.3	21.7
Micromill(TM) (4)	(63.4)	(24.5)	(14.5)
Eliminations	8.9	(5.9)	8.3
Corporate (3)	(65.1)	(74.6)	(59.8)
Total Operating Income	\$ 90.6	\$ 168.0	\$ 97.8
Net Income	\$.6	\$ 48.0	\$ 8.2
Capital Expenditures	\$ 77.6	\$ 128.5	\$ 161.5

(1) Average realized prices for the Company's Flat-rolled products and Engineered products segments are not presented as such prices are

subject to fluctuations due to changes in product mix. Average realized third party sales prices for alumina and primary aluminum include the impact of hedging activities.

(2) Fourth quarter 1998 results for the Bauxite and alumina, Primary aluminum, Flat-rolled products and Engineered products segments included unfavorable strike-related impacts of approximately \$10.0, \$24.0, \$13.0, and \$3.0, respectively.

(3) Second quarter 1997 results included pre-tax charges of \$2.6, \$12.5 and \$4.6 related to restructuring of operations for the Flat-rolled products, Engineered products and Corporate segments, respectively.

(4) Fourth quarter 1998 results included a non-cash charge of \$45.0 related to impairment of the Company's Micromill assets.

This section contains statements which constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. These statements appear in a number of places in this section (see "Overview," "Results of Operations," "Liquidity and Capital Resources" and "Other Matters"). Such statements can be identified by the use of forward-looking terminology such as "believes," "expects," "may," "estimates," "will," "should," "plans" or "anticipates" or the negative thereof or other variations thereon or comparable terminology, or by discussions of strategy. Readers are cautioned that any such forward-looking statements are not guarantees of future performance and involve significant risks and uncertainties, and that actual results may vary materially from those in the forward-looking statements as a result of various factors. These factors include the effectiveness of management's strategies and decisions, general economic and business conditions, developments in technology, year 2000 technology issues, new or modified statutory or regulatory requirements and changing prices and market conditions. This section and the Company's Annual Report on Form 10-K each identify other factors that could cause such differences. No assurance can be given that these are all of the factors that could cause actual results to vary materially from the forward-looking statements.

OVERVIEW

MARKET-RELATED FACTORS

The Company's operating results are sensitive to changes in prices of alumina, primary aluminum, and fabricated aluminum products, and also depend to a significant degree on the volume and mix of all products sold and on KACC's hedging strategies.

Primary aluminum prices have historically been subject to significant cyclical price fluctuations. See Notes 1 and 10 of the Notes to Consolidated Financial Statements for a discussion of KACC's hedging activities.

During 1998, the Average Midwest United States transaction price ("AMT Price") per pound of primary aluminum experienced a steady decline during the year, beginning the year in the \$.70 to \$.75 range and ending the year in the low \$.60 range. During 1997, the AMT Price remained in the \$.75 to \$.80 price range for the first eleven months before declining to the low \$.70 range in December. The AMT Price for 1996 remained fairly stable, generally in the \$.70 to \$.75 range, through June and then declined during the second half of the year, reaching a low of approximately \$.65 per pound for October 1996, before recovering late in the year.

Subsequent to December 31, 1998, the AMT Price has continued to decline. At February 26, 1999, the AMT Price was approximately \$.58.

LABOR MATTERS

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

KACC and the USWA continue to communicate; however, no formal schedule for bargaining sessions has been developed at this time. The objective of the Company has been, and continues to be, to negotiate a fair labor contract that is consistent with its business strategy and the commercial realities of the marketplace.

As a result of the USWA strike, the Company temporarily curtailed three out of a total of eleven potlines at its Mead and Tacoma, Washington, aluminum smelters at September 30, 1998. The curtailed potlines represent approximately 70,000 tons of annual production capacity out of a total combined production capacity of 273,000 tons per year at the facilities. As previously announced, in February 1999, KACC began restarting the two curtailed potlines at its Mead smelter representing approximately 50,000 tons of the previously idle capacity. KACC has also announced that it has completed preparations to restart 20,000 tons of idle capacity at its Tacoma smelter. However, the timing for any restart of the Tacoma potline has yet to be determined and will depend upon market conditions and other factors. Costs associated with the preparation and restart of the potlines at the Mead and Tacoma facilities are expected to adversely affect the Company's first quarter results.

While the Company initially experienced an adverse strike-related impact on its profitability in the fourth quarter of 1998, the Company currently believes that KACC's operations at the affected facilities have been substantially stabilized and will be able to run at, or near, full capacity, and that the incremental costs associated with operating the affected plants during the dispute were eliminated or substantially reduced as of January 1999 (excluding the impacts of the restart costs discussed above and the effect of market factors such as the continued

market-related curtailment at the Tacoma smelter). However, no assurances can be given that KACC's efforts to run the plants on a sustained basis, without a significant business interruption or material adverse impact on the Company's operating results, will be successful.

STRATEGIC INITIATIVES

The Company has previously disclosed that it set a goal of achieving \$120.0 million of pre-tax cost reductions and other profit improvements, independent of metal price changes, with the full effect planned to be realized in 1998 and beyond, measured against 1996 results. The Company believes that KACC's operations had achieved the run rate necessary to meet this objective prior to the end of the third quarter of 1998, when the impact of such items as smelter operating levels, the USWA strike and foreign currency changes are excluded from the analysis. Further, the Company believes that KACC has implemented the steps that will allow it to sustain the stated goal over the long term. The Company remains committed to sustaining the full \$120.0 million improvement and to generating additional profit improvements in future years; however, no assurances can be given that the Company will be successful in this regard.

In addition to working to improve the performance of the Company's existing assets, the Company has devoted significant efforts analyzing its existing asset portfolio with the intent of focusing its efforts and capital in sectors of the industry that are considered most attractive, and in which the Company believes it is well positioned to capture value. The initial steps of this process resulted in the June 1997 acquisition of the Bellwood extrusion facility, the May 1997 formation of AKW L.P. ("AKW"), a joint venture that designs, manufactures and sells heavy duty aluminum wheels, the rationalization of certain of the Company's engineered products operations and the Company's investment to expand its capacity for heat treat flat-rolled products at its Trentwood, Washington, rolling mill. The restructuring activities resulted in the Company recording a net pre-tax charge of \$19.7 million in June 1997. See Notes 3 and 4 of Notes to Consolidated Financial Statements.

The portfolio analysis process also resulted in the Company's fourth quarter 1998 decision to seek a strategic partner for further development and deployment of KACC's Micromill(TM) technology. While technological progress has been good, management concluded that additional time and investment would be required for success. Given the Company's other strategic priorities, the Company believes that introducing added commercial and financial resources is the appropriate course of action for capturing the maximum long term value. This change in strategic course required a different accounting treatment, and the Company correspondingly recorded a \$45.0 million impairment charge to reduce the carrying value of the Micromill assets to approximately \$25.0 million.

Another area of emphasis has been a continuing focus on managing the Company's legacy liabilities. One element of this process has been actively pursuing claims in respect of insurance coverage for certain incurred and future environmental costs. During the fourth quarter of 1998, KACC received recoveries totalling approximately \$35.0 million related to current and future claims against certain of its insurers. Recoveries of \$12.0 million were deemed to be allocable to previously accrued (expensed) items and were reflected in earnings during the fourth quarter of 1998. The remaining recoveries were offset against increases in the total amount of environmental reserves. No assurances can be given that the Company will be successful in other attempts to recover incurred or future costs from other insurers or that the amount of any recoveries received will ultimately be adequate to cover costs incurred. See Note 9 of Notes to Consolidated Financial Statements.

Additional portfolio analysis and initiatives are continuing.

In early 1999, the Company's program to focus its efforts and capital in sectors of the industry which it considers to be the most attractive, and in which the Company believes it is well positioned to capture value, has resulted in an agreement to sell one joint venture interest and a separate agreement to purchase another. As previously announced, in January 1999, KACC signed a letter of intent to sell its 50% interest in AKW to its joint venture partner. The transaction, which would result in the Company recognizing a substantial gain, is currently expected to close on or about March 31, 1999. However, as the transaction is subject to negotiation of a definitive purchase agreement, no assurances can be given that this transaction will be consummated. Also, in February 1999, as previously announced, KACC completed the acquisition of the remaining 45% interest in Kaiser LaRoche Hydrate Partners, an alumina marketing venture, from its joint venture partner for a cash purchase price of approximately \$10.0 million. See Note 12 of Notes to Consolidated Financial Statements.

VALCO OPERATING LEVEL

During most of 1998, the Company's 90%-owned Volta Aluminium Company Limited ("Valco") smelter in Ghana operated only one of its five potlines, as compared to 1997, when Valco operated four potlines. Each of Valco's potlines produces approximately 40,000 tons of primary aluminum per year. Valco received compensation (in the form of energy credits to be utilized over the last half of 1998 and during 1999) from the Volta River Authority ("VRA") in lieu of the power necessary to run two of the potlines that were curtailed during 1998. The compensation substantially mitigated the financial impact of the curtailment of such lines. Valco did not receive any compensation from the VRA for one additional potline which was curtailed in January 1998. Based on Valco's proposed 1999 power allocation from the VRA, Valco has announced that it expects to operate three lines during 1999. The decision to operate at that level was based on the power allocation that Valco has received from the VRA as well as consideration of market and other factors. As previously announced, Valco has notified the VRA that it believes it had the contractual rights at the beginning of 1998 to sufficient energy to run four and one-half potlines for the balance of the year. Valco continues to seek compensation from the VRA with respect to the January 1998 reduction of its power allocation. Valco and the VRA also are in continuing discussions concerning other matters, including steps that might be taken to reduce the likelihood of power curtailments in the future. No assurances can be given as to the success of these discussions.

RESULTS OF OPERATIONS

1998 AS COMPARED TO 1997

Summary - The Company reported net income of \$.6 million, or \$.01 per common share, for 1998 compared to net income of \$48.0 million, or \$.57 per common share, for 1997. Net sales in 1998 totaled \$2,256.4 million compared to \$2,373.2 million in 1997.

Net income for 1998 included the effect of certain non-recurring items, including approximately \$60.0 million of pre-tax incremental expense and the earnings impact of lost volume associated with a strike by members of the USWA (more fully discussed above), a \$45.0 million pre-tax non-cash charge to reduce the carrying value of the Company's Micromill assets and an \$8.3 million non-cash tax benefit resulting from the resolution of certain tax matters. Net income for 1997 included the effect of two essentially offsetting non-recurring items: a \$19.7 million pre-tax restructuring charge and an approximate \$12.5 million non-cash tax benefit related to settlement of certain tax matters.

Bauxite and Alumina - Third party net sales of alumina were up 16% in 1998 as compared to 1997 primarily due to a 17% increase in third party shipments. The increase in 1998 third party shipments (and offsetting decrease in 1998 intersegment shipments) resulted from reduced shipments to Valco, due to the production curtailment more fully discussed above and to a lesser extent, the fourth quarter strike-related curtailment of three potlines at the Company's Washington smelters. The average realized price for third party alumina sales was down only slightly as the allocated net gains from the Company's hedging activities substantially offset the decline in market prices related to the Company's primary aluminum-linked customer sales contracts. In addition to being impacted by the reduced shipments to Valco and the Washington smelters as discussed above, intersegment sales were adversely affected by a substantial market-related decline in intersegment average sales prices.

Segment operating income was essentially unchanged, excluding the impact of the approximate \$11.0 million of incremental strike-related costs. The adverse impact of reduced intersegment realized prices was essentially offset by improved operating performance resulting from higher production as well as lower energy costs.

Primary Aluminum - 1998 third party net sales of primary aluminum were down 25% as compared to 1997 primarily as a result of a 20% reduction in shipments, caused by the 1998 potline curtailments at Valco and the Washington smelters. A 5% reduction in average realized third party sales prices between 1998 and 1997 (reflecting lower market prices offset, in part, by allocated net gains from KACC's hedging activities), also adversely impacted third party net sales. Intersegment net sales were down approximately 15% between 1998 and 1997. While intersegment shipments were essentially unchanged from the prior year, average realized prices dropped by 14% reflecting lower market prices for primary aluminum.

Segment operating income in 1998 was down significantly from 1997. The operating income impact of the Valco potline curtailments was partially mitigated by the compensation from the VRA for two of the three curtailed potlines. In addition to the impact of the one uncompensated potline curtailment at Valco, 1998 results were also negatively affected by the impact of the potline curtailments at the Company's Washington smelters, reduced average realized prices (primarily on intersegment sales), and an adverse strike-related impact of approximately \$29.0 million.

Flat-Rolled Products - Net sales of flat-rolled products decreased by 4% during 1998 as compared to 1997 as a 5% reduction in product shipments was modestly offset by the price impact of changes in product mix. The mix of product shipments in 1998 reflects a higher demand for heat treat products, primarily in the first half of the year, offset by reduced can sheet shipments and an increased level of tolling, all as compared to 1997.

Segment operating income increased significantly in 1998 primarily as a result of the increased demand for heat treat products in the first half of 1998 and improved operating efficiencies. Segment results for 1998 were particularly strong in light of the unfavorable strike-related impact of approximately \$16.0 million. Segment results for 1997 included a non-cash charge recorded in the second quarter of 1997 in connection with restructuring activities.

Engineered Products - Net sales of engineered products were relatively flat year to year. An 11% increase in product shipments was effectively offset by market-related reductions in product prices as well as by the price impact of changes in product mix. The increase in year-over-year shipments is in part due to the impact of the Company's ownership of the Bellwood extrusion facility in Richmond, Virginia, for all of 1998 versus only half of 1997. This was, in part, offset by a decline in year-over-year sales, attributable to the AKW wheels joint venture formation in May 1997 and reduced shipments caused by labor difficulties at two major customers.

Segment operating income declined by approximately 6% in 1998 as compared to 1997, excluding the 1997 pre-tax net charge related to restructuring of operations and approximately \$4.0 million of adverse incremental strike-related impact in 1998, as a result of the market impact of the previously mentioned labor difficulties at two major customers and due to an overall softening in demand, particularly in the second half of the year.

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

Corporate and Other - Corporate operating expenses represent corporate general and administrative expenses which are not allocated to the Company's business segments. Excluding the 1997 pre-tax charge associated with the Company's restructuring of operations, corporate expenses were lower in 1998 than in 1997 primarily as a result of lower consulting and other costs associated with the Company's ongoing profit improvement program and portfolio review initiatives.

1997 AS COMPARED TO 1996

Summary - The Company reported net income of \$48.0 million, or \$.57 per common share, for 1997 compared to net income of \$8.2 million, or \$.00 per common share, for 1996. Net income for 1997 included the effect of two essentially offsetting non-recurring items: a \$19.7 million pre-tax restructuring and an approximate \$12.5 million non-cash tax benefit related to settlement of certain tax matters. Net sales in 1997 totaled \$2,373.2 million compared to \$2,190.5 million in 1996.

Bauxite and Alumina - Third party net sales of alumina in 1997 decreased by 4% as compared to 1996 as a 7% decline in third party shipments more than offset a 2% increase in average realized prices. Third party shipment volumes were down as compared to 1996 as a result of the timing of shipments and a 6% increase in intersegment transfers, primarily due to the operation in 1997 of an additional one-half of a potline at Valco over the 1996 operating level. Intersegment net sales increased by approximately 4% between 1996 and 1997 as a result of the previously mentioned increase in intersegment shipments offset by a 2% decline in intersegment prices.

Segment operating income improved substantially in 1997 from 1996, despite the reduced level of shipments and certain increased costs in part resulting from a slowdown at the Company's 49%-owned Kaiser Jamaica Bauxite Company, prior to the signing of a new labor contract in December 1997, primarily due to lower overall operating costs.

Primary Aluminum - Third party net sales of primary aluminum were up only slightly in 1997 as compared to 1996 as a 9% increase in average realized prices was substantially offset by an 8% decline in third party shipments. Intersegment net sales were up 26% year-over-year as a result of a 28% increase in intersegment shipments offset, in part by a 2% decline in intersegment prices. The change in intersegment shipments of primary aluminum between 1996 and 1997 was attributable to increased requirements of the flat-rolled and engineered products segments.

Segment operating income improved significantly in 1997 from 1996 as a result of the aforementioned volume and price effects as well as reduced power, raw material and supply costs and improved operating efficiencies. Segment operating income for 1997 also included \$10.3 million related to the settlement of certain energy service contract issues.

Flat-Rolled Products - Net sales of flat-rolled products in 1997 increased by 19% over 1996 levels as a 21% increase in product shipments was only slightly offset by the pricing impact of changes in product mix. The increase in 1997 product shipments over 1996 was primarily the result of the increased international shipments of can sheet and increased shipments of heat treat products reflecting in part, increased aerospace demand.

Segment operating income in 1997 declined as a result of a second quarter pre-tax charge related to restructuring of operations together with reduced profitability of international can sheet sales.

Engineered Products - Net sales of engineered products increased 15% year-to-year as a 24% increase in product shipments was partially offset by the price impact of changes in product mix. The increase in 1997 shipments over 1996 levels was primarily the result of the Company's June 1997 acquisition of the Bellwood extrusion facility in Richmond, Virginia, offset, in part, by the formation of AKW in May 1997.

Segment operating income improved substantially over 1996, despite a second quarter 1997 pre-tax net charge related to restructuring of operations, as a result of the aforementioned volume and product mix effects along with improved operating efficiencies.

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

Corporate and Other - Corporate operating results for 1997 included a second quarter pre-tax charge associated with the Company's restructuring of operations. Corporate operating expenses for the year ended December 31, 1997, also include consulting and other costs associated with the Company's ongoing profit improvement program and portfolio review initiatives.

LIQUIDITY AND CAPITAL RESOURCES

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

OPERATING ACTIVITIES

Cash provided by operating activities was \$170.7, \$45.0 and \$21.9 million in 1998, 1997 and 1996, respectively. The improvement in cash flows from operating activities between 1998 and 1997 was due primarily to a reduced investment in working capital (excluding cash), the receipt of \$35.0 million of environmental insurance recoveries and the impact of current year results (excluding non-cash charges). The improvement in cash flows from operating activities between 1996 and 1997 was primarily due to higher earnings resulting from increased product prices and increased sales of fabricated products partially offset by increased investment in working capital.

INVESTING ACTIVITIES

Total consolidated capital expenditures were \$77.6, \$128.5 and \$161.5 million in 1998, 1997 and 1996, respectively (of which \$7.2, \$6.6 and \$7.4 million were funded by the minority partners in certain foreign joint ventures), and were made primarily to improve production efficiency, reduce operating costs, expand capacity at existing facilities and construct or acquire new facilities. Total consolidated capital expenditures are currently expected to be between \$70 and \$90 million per annum in each of 1999 through 2001 (of which approximately 8% is expected to be funded by the Company's minority partners in certain foreign joint ventures). Management continues to evaluate numerous projects, all of which would require substantial capital, both in the United States and overseas. The level of capital expenditures may be adjusted from time to time depending on the Company's price outlook for primary aluminum and other products, KACC's ability to assure future cash flows through hedging or other means, the Company's financial position and other factors.

A substantial portion of the increase in capital expenditures in 1996 was attributable to the development and construction of the Company's proprietary Micromill technology for the production of can sheet and other sheet products from molten metal. During 1998, the Micromill facility, near Reno, Nevada, commenced product shipments to customers, but the amount of such shipments was nominal. As previously announced, in order to attempt to capture the maximum long-term value and given other strategic priorities, the Company has decided to seek a strategic partner for the further development and deployment of the Micromill technology. As more fully discussed in Note 3 of Notes to Consolidated Financial Statements, this change in strategic course required a different accounting treatment, and accordingly, the Company recorded a \$45.0 million non-cash charge to reduce the carrying value of the Micromill assets. There can be no assurances regarding whether the future development or deployment of the Micromill technology will be successful.

FINANCING ACTIVITIES AND LIQUIDITY

The Company and KACC have a credit agreement (as amended, the "Credit Agreement") under which KACC is able to borrow by means of revolving credit advances and letters of credit (up to \$125.0 million) an aggregate amount equal to the lesser of \$325.0 million or a borrowing base relating to eligible accounts receivable and eligible inventory. The Credit Agreement, which matures in August 2001, is guaranteed by the Company and by certain significant subsidiaries of KACC. The Credit Agreement requires KACC to comply with certain financial covenants, places significant restrictions on the Company and KACC, and is secured by a substantial majority of the Company's and KACC's assets. The Credit Agreement does not permit the Company or KACC to pay any dividends on their common stock. KACC's public indebtedness also include various restrictions on KACC and its subsidiaries and repurchase obligations upon a Change of Control.

As of December 31, 1998, the Company's total consolidated indebtedness was \$963.0 million. No amounts were outstanding under the revolving credit facility of the Credit Agreement. KACC had \$274.1 million of unused availability remaining under the Credit Agreement at February 28, 1999, after allowances of \$50.9 million for outstanding letters of credit.

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

CAPITAL STRUCTURE

MAXXAM Inc. ("MAXXAM") and one of its wholly owned subsidiaries collectively own approximately 63% of the Company's Common Stock, with the remaining approximately 37% of the Company's Common Stock being publicly held. Certain of the shares of the Company's Common Stock beneficially owned by MAXXAM are subject to certain pledge agreements. See Note 8 of Notes to Consolidated Financial Statements for a further description of the pledge agreements.

During August 1997, the remaining 8,673,850 shares of outstanding PRIDES were converted into 7,227,848 shares of the Company's Common Stock pursuant to the PRIDES Certificate of Designations. See Note 8 of Notes to Consolidated Financial Statements.

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

See Note 8 of Notes to Consolidated Financial Statements.

COMMITMENTS AND CONTINGENCIES

The Company and KACC are subject to a number of environmental laws, to fines or penalties assessed for alleged breaches of the environmental laws, and to claims and litigation based upon such laws. KACC currently is subject to a number of lawsuits and, along with certain other entities, has been named as a potentially responsible party for remedial costs at certain third-party sites listed on the National Priorities List under CERCLA. Based on the Company's current evaluation of these and other environmental matters, the Company has established environmental accruals of \$50.7 million at December 31, 1998.

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

KACC or exposure to products containing asbestos produced or sold by KACC. The lawsuits generally relate to products KACC has not sold for at least 20 years. Based on past experience and reasonably anticipated future activity, the Company has established a \$186.2 million accrual for estimated asbestos-related costs for claims filed and estimated to be filed through 2008, before consideration of insurance recoveries. However, the Company believes that substantial recoveries from insurance carriers are probable. The Company reached this conclusion based on prior insurance-related recoveries in respect of asbestos-related claims, existing insurance policies and the advice of outside counsel with respect to applicable insurance coverage law relating to the terms and conditions of these policies. Accordingly, the Company has recorded an estimated aggregate insurance recovery of \$152.5 million (determined on the same basis as the asbestos-related cost accrual) at December 31, 1998. Although the Company has settled asbestos-related coverage matters with certain of its insurance carriers, other carriers have not yet agreed to settlements. The timing and amount of future recoveries from these carriers will depend on the pace of claims review and processing by such carriers and on the resolution of any disputes regarding coverage under such policies that may arise.

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

In connection with the USWA strike and subsequent "lock-out" by KACC, certain allegations of unfair labor practices ("ULPs") have been filed with the National Labor Relations Board by the USWA and its members. KACC has responded to all such allegations and believes that they are without merit. If the allegations were sustained, KACC could be required to make locked-out employees whole for back wages from the date of the lock-out in January 1999. While uncertainties are inherent in the final outcome of such matters, the Company believes that the resolution of the alleged ULPs should not result in a material adverse impact on the Company's financial position, results of operations, or liquidity.

See Note 9 of Notes to Consolidated Financial Statements for a more detailed discussion of these contingencies and the factors affecting management's beliefs. See also "Overview."

OTHER MATTERS

YEAR 2000 READINESS DISCLOSURE

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

Each of the Company's business units has developed, or is completing, year 2000 plans specifically tailored to their individual situations. A wide range of solutions is being implemented, including modifying existing systems and, in limited cases where it is cost effective, purchasing new systems. Total spending related to these projects, which began in 1997 and is expected to continue through 1999, is currently estimated to be in the \$10-15 million range. Approximately half of the year 2000 expenditures are expected to be made during 1999. System modification costs are being expensed as incurred. Costs associated with new systems are being capitalized and will be amortized over the life of the product. The Company has established an internal goal of having all necessary system changes in place and tested by mid-year 1999. The Company plans to commit the necessary resources to meet this deadline.

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

Each business unit, including the corporate group, is developing a contingency plan covering the steps that would be taken if a year 2000 problem were to occur despite the Company's best efforts to identify and remediate all critical at-risk items. Each contingency plan will address, among other things, matters such as alternative suppliers for critical inputs, incremental standby labor requirements at the millennium to address any problems as they occur, and backup processing capabilities for critical equipment or processes. The goal of the contingency plans will be to minimize any business interruptions and the associated financial implications.

While the Company believes that its program is sufficient to identify the critical issues and associated costs necessary to address possible year 2000 problems in a timely manner, there can be no assurances that the program, or underlying steps implemented, will be successful in resolving all such issues by the Company's mid-1999 goal or prior to the year 2000. If the steps taken by the Company (or critical third parties) are not made in a timely manner, or are not successful in identifying and remediating all significant year 2000 issues, business interruptions or delays could occur and could have a material adverse impact on the Company's results and financial condition. However, based on the information the Company has gathered to date and the Company's expectations of its ability to remediate problems encountered, the Company currently believes that significant business interruptions that would have a material impact on the Company's results or financial condition will not be encountered.

RECENT ACCOUNTING PRONOUNCEMENTS

The Company adopted Statement of Financial Accounting Standards No. 130, Reporting Comprehensive Income ("SFAS No. 130") as of January 1, 1998. SFAS No. 130 requires the presentation of an additional income measure (termed "comprehensive income"), which adjusts traditional net income for certain items that previously were only reflected as direct charges to equity (such as minimum pension liabilities).

Statement of Financial Accounting Standards No. 133, Accounting for Derivative Instruments and Hedging Activities ("SFAS No. 133") was issued in June 1998 and requires companies to recognize all derivative instruments as assets or liabilities in the balance sheet and to measure those instruments at fair value. SFAS No. 133 must be adopted by the Company no later than January 1, 2000, although earlier application is permitted. The Company is currently evaluating how and when to implement SFAS No. 133.

Currently, the dollar amount of the Company's comprehensive income adjustments is not significant so there is not a significant difference between "traditional" net income and comprehensive income. However, differences between comprehensive income and traditional net income may become significant in future periods as a result of SFAS No. 133. As discussed more fully in Notes 1 and 10 of Notes to Consolidated Financial Statements, the intent of the Company's hedging program is to "lock-in" a price (or range of prices) for products sold/used so that earnings and cash flows are subject to reduced risk of volatility. Under SFAS No. 133, the Company will be required to "mark-to-market" its hedging positions at each period end in advance of reflecting the physical transaction to which the hedge relates. Pursuant to SFAS No. 130, the Company will reflect changes in the fair value of its open hedging positions as an increase or reduction in stockholders' equity through comprehensive income. Under SFAS No. 130, the impact of the changes in fair value of financial instruments will reverse out of comprehensive income (net of any fluctuations in other "open" positions) and will be reflected in traditional net income when the subsequent physical transaction occurs.

The combined effect of SFAS No's. 130 and 133 will result in fluctuations in comprehensive income and stockholders' equity in periods of price volatility, despite the fact that the Company's cash flow and earnings will be "fixed" to the extent hedged. The amount of such fluctuations could be significant.

INCOME TAX MATTERS

The Company's net deferred income tax assets as of December 31, 1998, were \$378.2 million, net of valuation allowances of \$107.7 million. The Company believes a long-term view of profitability is appropriate and has concluded that these net deferred income tax assets will more likely than not be realized. See Note 6 of Notes to Consolidated Financial Statements for a discussion of these and other income tax matters.

KAISER ALUMINUM CORPORATION AND SUBSIDIARY COMPANIES REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

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

We have audited the accompanying consolidated balance sheets of Kaiser Aluminum Corporation (a Delaware corporation) and subsidiaries as of December 31, 1998 and 1997, and the related statements of consolidated income (loss) and cash flows for each of the three years in the period ended December 31, 1998. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Kaiser Aluminum Corporation and subsidiaries as of December 31, 1998 and 1997, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1998, in conformity with generally accepted accounting principles.

ARTHUR ANDERSEN LLP

Houston, Texas
February 28, 1999

KAISER ALUMINUM CORPORATION AND SUBSIDIARY COMPANIES
CONSOLIDATED BALANCE SHEETS

(In millions of dollars, except share amounts)	December 31,	
	1998	1997
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 98.3	\$ 15.8
Receivables:		
Trade, less allowance for doubtful receivables of \$6.2 in 1998 and \$5.8 in 1997	170.1	232.9
Other	112.6	107.3
Inventories	543.5	568.3
Prepaid expenses and other current assets	105.5	121.3
	-----	-----
Total current assets	1,030.0	1,045.6
Investments in and advances to unconsolidated affiliates	128.3	148.6
Property, plant, and equipment - net	1,108.7	1,171.8
Deferred income taxes	377.9	330.6
Other assets	346.0	317.3
	-----	-----
Total	\$ 2,990.9	\$ 3,013.9
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 173.3	\$ 176.2
Accrued interest	37.3	37.6
Accrued salaries, wages, and related expenses	73.8	97.9
Accrued postretirement medical benefit obligation - current portion	48.2	45.3
Other accrued liabilities	148.3	145.6
Payable to affiliates	77.1	82.7
Long-term debt - current portion	.4	8.8
	-----	-----
Total current liabilities	558.4	594.1
Long-term liabilities	532.9	491.9
Accrued postretirement medical benefit obligation	694.3	720.3
Long-term debt	962.6	962.9
Minority interests	123.5	127.7
Commitments and contingencies		
Stockholders' equity:		

Common stock, par value \$.01, authorized 100,000,000 shares; issued and outstanding, 79,153,543 and 78,980,881 in 1998 and 1997	.8	.8
Additional capital	535.4	533.8
Accumulated deficit	(417.0)	(417.6)
	-----	-----
Total stockholders' equity	119.2	117.0
	-----	-----
Total	\$ 2,990.9	\$ 3,013.9
	=====	=====

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

KAISER ALUMINUM CORPORATION AND SUBSIDIARY COMPANIES STATEMENTS OF CONSOLIDATED INCOME

(LOSS)

(In millions of dollars, except share amounts)	Year Ended December 31,		
	1998	1997	1996
Net sales	\$ 2,256.4	\$ 2,373.2	\$ 2,190.5
Costs and expenses:			
Cost of products sold	1,906.2	1,951.2	1,857.5
Depreciation and amortization	99.1	102.5	107.6
Selling, administrative, research and development, and general	115.5	131.8	127.6
Impairment of Micromill(TM) assets/restructuring of operations	45.0	19.7	-
Total costs and expenses	2,165.8	2,205.2	2,092.7
Operating income	90.6	168.0	97.8
Other income (expense):			
Interest expense	(110.0)	(110.7)	(93.4)
Other - net	3.5	3.0	(2.7)
Income (loss) before income taxes and minority interests	(15.9)	60.3	1.7
Benefit (provision) for income taxes	16.4	(8.8)	9.3
Minority interests	.1	(3.5)	(2.8)
Net income	.6	48.0	8.2
Dividends on preferred stock	-	(5.5)	(8.4)
Net income (loss) available to common shareholders	\$.6	\$ 42.5	\$ (.2)
Earnings per share:			
Basic	\$.01	\$.57	\$.00
Diluted	\$.01	\$.57	\$.00
Weighted average shares outstanding (000):			
Basic	79,115	74,221	71,644
Diluted	79,156	74,382	71,644

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

KAISER ALUMINUM CORPORATION AND SUBSIDIARY COMPANIES
STATEMENTS OF CONSOLIDATED CASH FLOWS

(In millions of dollars)	Year Ended December 31,		
	1998	1997	1996
<hr/>			
Cash flows from operating activities:			
Net income	\$.6	\$ 48.0	\$ 8.2
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization (including deferred financing costs)	103.0	108.6	113.2
Impairment of Micromill assets/restructuring of operations	45.0	19.7	-
Non-cash benefit for income taxes	(8.3)	(12.5)	-
Equity in (income) loss of unconsolidated affiliates, net of distributions	.1	7.8	3.0
Minority interests	(.1)	3.5	2.8
Decrease (increase) in receivables	61.5	(92.1)	51.8
Decrease (increase) in inventories	24.8	(9.3)	(36.5)
Decrease (increase) in prepaid expenses and other assets	2.5	7.8	(39.5)
(Decrease) increase in accounts payable and accrued interest	(3.2)	(11.5)	8.8
Decrease in payable to affiliates and accrued liabilities	(41.6)	(19.6)	(62.9)
Decrease in accrued and deferred income taxes	(26.2)	(17.4)	(36.5)
Other	12.6	12.0	9.5
	<hr/>		
Net cash provided by operating activities	170.7	45.0	21.9
	<hr/>		
Cash flows from investing activities:			
Additions to property, plant, and equipment	(77.6)	(128.5)	(161.5)
Other	3.2	19.9	17.2
	<hr/>		
Net cash used for investing activities	(74.4)	(108.6)	(144.3)
	<hr/>		
Cash flows from financing activities:			
Repayments under revolving credit facility, net	-	-	(13.1)
Borrowings of long-term debt	-	19.0	225.9
Repayments of long-term debt	(8.9)	(8.8)	(9.0)
Incurrence of financing costs	(.6)	(.9)	(6.2)
Dividends paid	-	(4.2)	(10.5)
Capital stock issued	.1	.4	-
Decrease (increase) in restricted cash, net	4.3	(5.3)	-
Redemption of minority interests' preference stock	(8.7)	(2.1)	(5.3)
	<hr/>		
Net cash (used for) provided by financing activities	(13.8)	(1.9)	181.8
	<hr/>		
Net increase (decrease) in Cash and cash equivalents during the year	82.5	(65.5)	59.4
Cash and cash equivalents at beginning of year	15.8	81.3	21.9
	<hr/>		
Cash and cash equivalents at end of year	\$ 98.3	\$ 15.8	\$ 81.3
	<hr/>		
Supplemental disclosure of cash flow information:			
Interest paid, net of capitalized interest	\$ 106.3	\$ 102.7	\$ 84.2
Income taxes paid	16.8	24.4	22.7
Tax allocation payments to MAXXAM Inc.	-	11.8	1.1

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

KAISER ALUMINUM CORPORATION AND SUBSIDIARY COMPANIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(In millions of dollars, except share amounts)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the statements of Kaiser Aluminum Corporation ("Kaiser" or the "Company") and its majority owned subsidiaries. The Company is a subsidiary of MAXXAM Inc. ("MAXXAM") and conducts its operations through its wholly owned subsidiary, Kaiser Aluminum & Chemical Corporation ("KACC"). KACC operates in all principal aspects of the aluminum industry—the mining of bauxite (the major aluminum bearing ore), the refining of bauxite into alumina (the intermediate material), the production of primary aluminum, and the manufacture of fabricated and semi-fabricated aluminum products. Kaiser's production levels of alumina and primary aluminum exceed its internal processing needs, which allows it to be a major seller of alumina and primary aluminum to domestic and international third parties (see Note 11).

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

Investments in 50%-or-less-owned entities are accounted for primarily by the equity method. Intercompany balances and transactions are eliminated.

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

CASH AND CASH EQUIVALENTS

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

INVENTORIES

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

	December 31,	
	1998	1997
Finished fabricated products	\$ 112.4	\$ 103.9
Primary aluminum and work in process	205.6	226.6
Bauxite and alumina	109.5	108.4
Operating supplies and repair and maintenance parts	116.0	129.4
	\$ 543.5	\$ 568.3

DEPRECIATION

Depreciation is computed principally by the straight-line method at rates based on the estimated useful lives of the various classes of assets. The principal estimated useful lives of land improvements, buildings, and machinery and equipment are 8 to 25 years, 15 to 45 years, and 10 to 22 years, respectively.

STOCK-BASED COMPENSATION

The Company applies the intrinsic value method to account for a stock-based compensation plan whereby compensation cost is recognized only to the extent that the quoted market price of the stock at the measurement date exceeds the amount an employee must pay to acquire the stock. No compensation cost has been recognized for this plan as the stock options granted in 1998 and 1997 were at the market price. No stock options were granted in 1996. (See Note 7).

OTHER INCOME (EXPENSE)

Other expense in 1998, 1997, and 1996, includes \$12.7, \$8.8, and \$3.1 of pre-tax charges related principally to establishing additional litigation reserves for asbestos claims net of estimated aggregate insurance recoveries pertaining to operations which were discontinued prior to the acquisition of the Company by MAXXAM in 1988. Other income in 1998 includes \$12.0 attributable to insurance recoveries related to certain incurred environmental costs. (See Note 9).

DEFERRED FINANCING COSTS

Costs incurred to obtain debt financing are deferred and amortized over the estimated term of the related borrowing. Amortization of \$3.9, \$6.1, and \$5.6 is included in interest expense for the years ended December 31, 1998, 1997, and 1996, respectively.

FOREIGN CURRENCY

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

DERIVATIVE FINANCIAL INSTRUMENTS

Hedging transactions using derivative financial instruments are primarily designed to mitigate KACC's exposure to changes in prices for certain of the products which KACC sells and consumes and, to a lesser extent, to mitigate KACC's exposure to changes in foreign currency exchange rates. KACC does not utilize derivative financial instruments for trading or other speculative purposes. KACC's derivative activities are initiated within guidelines established by management and approved by KACC's and the Company's boards of directors. Hedging transactions are executed centrally on behalf of all of KACC's business segments to minimize transaction costs, monitor consolidated net exposures and allow for increased responsiveness to changes in market factors.

Most of KACC's hedging activities involve the use of option contracts (which establish a maximum and/or minimum amount to be paid or received) and forward sales contracts (which effectively fix or lock-in the amount KACC will pay or receive). Option contracts typically require the payment of an up-front premium in return for the right to receive the amount (if any) by which the price at the settlement date exceeds the strike price. Any interim fluctuations in prices prior to the settlement date are deferred until the settlement date of the underlying hedged transaction, at which point they are reflected in net sales or cost of sales (as applicable) together with the related premium cost. Forward sales contracts do not require an up-front payment and are settled by the receipt or payment of the amount by which the price at the settlement date varies from the contract price. No accounting recognition is accorded to interim fluctuations in prices of forward sales contracts.

KACC has established margin accounts and credit limits with certain counterparties related to open forward sales and option contracts. When unrealized gains or losses are in excess of such credit limits, KACC is entitled to receive advances from the counterparties on open positions or is required to make margin deposits to counterparties, as the case may be. At December 31, 1998, KACC had received \$9.9 of margin advances from counterparties. At December 31, 1997, KACC had neither received nor made any margin deposits. Management considers credit risk related to possible failure of the counterparties to perform their obligations pursuant to the derivative contracts to be minimal.

Deferred gains or losses as of December 31, 1998, are included in Prepaid expenses and other current assets and Other accrued liabilities (See Note 10).

FAIR VALUE OF FINANCIAL INSTRUMENTS

The Company estimates the fair value of its outstanding indebtedness to be \$950.0 and \$1,020.0 at December 31, 1998 and 1997, respectively, based on quoted market prices for KACC's 9-7/8% Senior Notes due 2002 (the "9-7/8% Notes"), 12-3/4% Senior Subordinated Notes due 2003 (the "12-3/4% Notes"), and 10-7/8% Senior Notes due 2006 (the "10-7/8% Notes"), and the discounted future cash flows for all other indebtedness, using the current rate for debt of similar maturities and terms. The Company believes that the carrying amount of other financial instruments is a reasonable estimate of their fair value, unless otherwise noted.

EARNINGS PER SHARE

Basic - Earnings per share is computed by deducting preferred stock dividends from net income (loss) in order to determine net income (loss) available to common shareholders. This amount is then divided by the weighted average number of common shares outstanding during the period, including the weighted average impact of the shares of common stock issued during the year from the date(s) of issuance.

Diluted - Diluted earnings per share for the years ended December 31, 1998, and 1997 include the dilutive effect of outstanding stock options (41,000 and 161,000 shares, respectively). The impact of outstanding stock options was excluded from the computation for the year ended December 31, 1996, as its effect would have been antidilutive. The Company's 8.255% PRIDES, Convertible Preferred Stock ("PRIDES"), outstanding as of December 31, 1996, have not been treated "as if" converted for purposes of the Diluted computation in the period ended December 31, 1996, as such treatment would have been antidilutive.

LABOR RELATED COSTS

The Company is currently operating five of its U.S. facilities with salaried employees and other workers as a result of the September 30, 1998, strike by the United Steelworkers of America (USWA) and the subsequent "lock-out" by the Company in January 1999. For purposes of computing the benefit related costs and liabilities to be reflected in the accompanying consolidated financial statements for the year ended December 31, 1998 (such as pension and other postretirement benefit costs/liabilities), the Company has based its accruals on the terms of the previously existing (expired) USWA contract. Any differences between the amounts accrued and the amounts ultimately agreed to during the collective bargaining process will be reflected in future results during the term of any new contract.

All incremental operating costs incurred as a result of the USWA strike and subsequent lockout are being expensed as incurred. Such costs totaled approximately \$50.0 during 1998 (approximately \$40.0 of which were incurred in the fourth quarter). The Company's fourth quarter 1998 results also reflect reduced profitability of approximately \$10.0 resulting from the strike-related curtailment of three potlines (representing approximately 70,000 tons* of annual capacity) at the Company's Mead and Tacoma, Washington, smelters and certain other shipment delays experienced at the other affected facilities at the outset of the USWA strike.

2. INVESTMENTS IN AND ADVANCES TO UNCONSOLIDATED AFFILIATES

Summary combined financial information is provided below for unconsolidated aluminum investments, most of which supply and process raw materials. The investees are Queensland Alumina Limited ("QAL") (28.3% owned), Anglesey Aluminium Limited ("Anglesey") (49.0% owned), and Kaiser Jamaica Bauxite Company (49.0% owned). The equity in income (loss) before income taxes of such operations is treated as a reduction (increase) in cost of products sold. At December 31, 1998 and 1997, KACC's net receivable from these affiliates were not material. The summary combined financial information for the years ended December 31, 1998 and 1997, also contains the balances and results of AKW L.P. ("AKW") (50.0% owned), an aluminum wheels joint

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

venture formed with a third party in May 1997. (See Note 4). During early 1999, the Company signed a letter of intent to sell its interest in AKW. (See Note 12).

SUMMARY OF COMBINED FINANCIAL POSITION

	December 31,	
	1998	1997
Current assets	\$ 356.0	\$ 393.0
Long-term assets (primarily property, plant, and equipment, net)	393.9	395.0
Total assets	\$ 749.9	\$ 788.0
Current liabilities	\$ 92.2	\$ 117.1
Long-term liabilities (primarily long-term debt)	396.6	400.8
Stockholders' equity	261.1	270.1
Total liabilities and stockholders' equity	\$ 749.9	\$ 788.0

SUMMARY OF COMBINED OPERATIONS

	Year Ended December 31,		
	1998	1997	1996
Net sales	\$ 659.2	\$ 644.1	\$ 660.5
Costs and expenses	(651.7)	(637.8)	(631.5)
Provision for income taxes	(2.7)	(8.2)	(8.7)
Net income (loss)	\$ 4.8	\$ (1.9)	\$ 20.3
Company's equity in income	\$ 5.4	\$ 2.9	\$ 8.8
Dividends received	\$ 5.5	\$ 10.7	\$ 11.8

The Company's equity in income differs from the summary net income (loss) due to varying percentage ownerships in the entities and equity method accounting adjustments. At December 31, 1998, KACC's investment in its unconsolidated affiliates exceeded its equity in their net assets by approximately \$18.2 which amount will be fully amortized over the next two years. Amortization of the excess investment totaling \$10.0, \$11.4, and \$11.6 is included in Depreciation and amortization for the years ended December 31, 1998, 1997, and 1996, respectively.

The Company and its affiliates have interrelated operations. KACC provides some of its affiliates with services such as financing, management, and engineering. Significant activities with affiliates include the acquisition and processing of bauxite, alumina, and primary aluminum. Purchases from these affiliates were \$235.1, \$245.2, and \$281.6 in the years ended December 31, 1998, 1997, and 1996, respectively.

3. PROPERTY, PLANT, AND EQUIPMENT

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

	December 31,	
	1998	1997
Land and improvements	\$ 164.1	\$ 163.9
Buildings	229.5	228.3
Machinery and equipment	1,549.5	1,529.1
Construction in progress	43.8	51.2
	1,986.9	1,972.5
Accumulated depreciation	(878.2)	(800.7)
Property, plant, and equipment, net	\$ 1,108.7	\$ 1,171.8

During the fourth quarter of 1998, KACC decided to seek a strategic partner for further development and deployment of its Micromill(TM) technology. While technological progress has been good, management concluded that additional time and investment will be required to achieve commercial success. Given the Company's other strategic priorities, the Company believes that bringing in added commercial and financial resources is the appropriate course of action for capturing the maximum long-term value. This change in strategic course required a different accounting treatment, and the Company correspondingly recorded a \$45.0 impairment charge to reduce the carrying value of the Micromill assets to approximately \$25.0.

During June 1997, Kaiser Bellwood Corporation, a newly formed, wholly owned subsidiary of KACC, completed the acquisition of Reynolds Metals Company's Richmond, Virginia, extrusion plant and its existing inventories for a total purchase price of \$41.6, consisting of cash payments of \$38.4 and the assumption of approximately \$3.2 of employee related and other liabilities. Upon completion of the transaction, Kaiser Bellwood Corporation became a subsidiary guarantor under the indentures in respect of the 9-7/8% Notes, 10-7/8% Notes, and the 12-3/4% Notes. (See Note 5.)

4. RESTRUCTURING OF OPERATIONS

During the second quarter of 1997, the Company recorded a \$19.7 restructuring charge to reflect actions taken and plans initiated to achieve reduced production costs, decreased corporate selling, general and administrative expenses, and enhanced product mix. The significant components of the restructuring charge were: (i) a net loss of approximately \$1.4 as a result of the contribution of certain net assets of KACC's Erie, Pennsylvania, fabrication plant in connection with the formation of AKW and the subsequent decision to close the remainder of the Erie plant in order to consolidate its forging operations into two other facilities; (ii) a charge of \$15.6 associated with asset dispositions regarding product rationalization and geographical optimization; and (iii) a charge of approximately \$2.7 for benefit and other costs associated with the consolidation or elimination of certain corporate and other staff functions.

5. LONG-TERM DEBT

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

	1999	2000	2001	2002	2003	2004 and After	December 31, 1998 Total	1997 Total
Credit Agreement								
9-7/8% Senior Notes due 2002, net			\$ 224.4				\$ 224.4	\$ 224.2
10-7/8% Senior Notes due 2006, net						\$ 225.7	225.7	225.8
12-3/4% Senior Subordinated Notes due 2003				\$ 400.0			400.0	400.0
Alpart CARIFA Loans - (fixed and variable rates) due 2007, 2008						60.0	60.0	60.0
Other borrowings (fixed and variable rates)	\$.4	\$.3	.3	.3	.3	51.3	52.9	61.7
Total	\$.4	\$.3	.3	\$ 224.7	400.3	\$ 337.0	963.0	971.7
Less current portion							.4	8.8
Long-term debt							\$ 962.6	\$ 962.9

CREDIT AGREEMENT

In February 1994, the Company and KACC entered into a credit agreement (as amended, the "Credit Agreement") which provides a \$325.0 secured, revolving line of credit through August 2001. KACC is able to borrow under the facility by means of revolving credit advances and letters of credit (up to \$125.0) in an aggregate amount equal to the lesser of \$325.0 or a borrowing base relating to eligible accounts receivable

and eligible inventory. As of February 28, 1999, \$274.1 (of which \$74.1 could have been used for letters of credit) was available to KACC under the Credit Agreement. The Credit Agreement is unconditionally guaranteed by the Company and by certain significant subsidiaries of KACC. Interest on any outstanding balances will bear a premium (which varies based on the results of a financial test) over either a base rate or LIBOR, at KACC's option.

LOAN COVENANTS AND RESTRICTIONS

The Credit Agreement requires KACC to comply with certain financial covenants and places restrictions on the Company's and KACC's ability to, among other things, incur debt and liens, make investments, pay dividends, undertake transactions with affiliates, make capital expenditures, and enter into unrelated lines of business. The Credit Agreement is secured by, among other things, (i) mortgages on KACC's major domestic plants

(excluding KACC's Gramercy alumina plant and Micromill facility); (ii)

subject to certain exceptions, liens on the accounts receivable, inventory, equipment, domestic patents and trademarks, and substantially all other personal property of KACC and certain of its subsidiaries; (iii) a pledge of all the stock of KACC owned by Kaiser; and (iv) pledges of all of the stock of a number of KACC's wholly owned domestic subsidiaries, pledges of a portion of the stock of certain foreign subsidiaries, and pledges of a portion of the stock of certain partially owned foreign affiliates.

The obligations of KACC with respect to its 9-7/8% Notes, its 10-7/8% Notes and its 12-3/4% Notes are guaranteed, jointly and severally, by certain subsidiaries of KACC. The indentures governing the 9-7/8% Notes, the 10-7/8% Notes and the 12-3/4% Notes (collectively, the "Indentures") restrict, among other things, KACC's ability to incur debt, undertake transactions with affiliates, and pay dividends. Further, the Indentures provide that KACC must offer to purchase the 9-7/8% Notes, the 10-7/8% Notes and the 12-3/4% Notes, respectively, upon the occurrence of a Change of Control (as defined therein), and the Credit Agreement provides that the occurrence of a Change in Control (as defined therein) shall constitute an Event of Default thereunder.

Under the most restrictive of the covenants in the Credit Agreement, neither the Company nor KACC currently is permitted to pay dividends on its common stock.

In December 1991, Alumina Partners of Jamaica ("Alpart") entered into a loan agreement with the Caribbean Basin Projects Financing Authority ("CARIFA"). Alpart's obligations under the loan agreement are secured by two letters of credit aggregating \$64.2. KACC is a party to one of the two letters of credit in the amount of \$41.7 in respect of its ownership interest in Alpart. Alpart has also agreed to indemnify bondholders of CARIFA for certain tax payments that could result from events, as defined, that adversely affect the tax treatment of the interest income on the bonds.

RESTRICTED NET ASSETS OF SUBSIDIARIES

Certain debt instruments restrict the ability of KACC to transfer assets, make loans and advances, and pay dividends to the Company. The restricted net assets of KACC totaled \$124.4 and \$121.9 at December 31, 1998 and 1997, respectively.

CAPITALIZED INTEREST

Interest capitalized in 1998, 1997, and 1996, was \$3.0, \$6.6, and \$4.9, respectively.

6. INCOME TAXES

Income (loss) before income taxes and minority interests by geographic area is as follows:

	Year Ended December 31,		
	1998	1997	1996
Domestic	\$ (93.6)	\$ (112.6)	\$ (45.8)
Foreign	77.7	172.9	47.5
Total	\$ (15.9)	\$ 60.3	\$ 1.7

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

The (provision) benefit for income taxes on income (loss) before income taxes and minority interests consists of:

	Federal	Foreign	State	Total
1998 Current	\$ (1.8)	\$ (16.5)	\$ (.2)	\$ (18.5)
Deferred	44.4	(12.5)	3.0	34.9
Total	\$ 42.6	\$ (29.0)	\$ 2.8	\$ 16.4

1997 Current	\$	(2.0)	\$	(28.7)	\$	(.2)	\$	(30.9)
Deferred		30.5		(7.0)		(1.4)		22.1
Total	\$	28.5	\$	(35.7)	\$	(1.6)	\$	(8.8)
1996 Current	\$	(1.6)	\$	(21.8)	\$	(.1)	\$	(23.5)
Deferred		8.6		7.6		16.6		32.8
Total	\$	7.0	\$	(14.2)	\$	16.5	\$	9.3

A reconciliation between the benefit (provision) for income taxes and the amount computed by applying the federal statutory income tax rate to income before income taxes and minority interests is as follows:

	Year Ended December 31,		
	1998	1997	1996
Amount of federal income tax benefit (provision) based on the statutory rate	\$ 5.6	\$ (21.1)	\$ (.6)
Revision of prior years' tax estimates and other changes in valuation allowances	8.3	12.5	10.0
Percentage depletion	3.2	4.2	3.9
Foreign taxes, net of federal tax benefit	(1.9)	(3.1)	(5.5)
Other	1.2	(1.3)	1.5
Benefit (provision) for income taxes	\$ 16.4	\$ (8.8)	\$ 9.3

Included in revision of prior years' tax estimates and other changes in valuation allowances for 1998, 1997 and 1996 shown above are \$8.3, \$12.5 and \$9.8, respectively, related to the resolution of certain income tax matters.

The components of the Company's net deferred income tax assets are as follows:

	December 31,	
	1998	1997
Deferred income tax assets:		
Postretirement benefits other than pensions	\$ 279.4	\$ 288.9
Loss and credit carryforwards	92.0	99.3
Other liabilities	146.4	169.3
Other	132.8	102.0
Valuation allowances	(107.7)	(113.3)
Total deferred income tax assets-net	542.9	546.2
Deferred income tax liabilities:		
Property, plant, and equipment	(109.9)	(139.7)
Other	(54.8)	(54.8)
Total deferred income tax liabilities	(164.7)	(194.5)
Net deferred income tax assets	\$ 378.2	\$ 351.7

The principal component of the Company's net deferred income tax assets is the tax benefit, net of certain valuation allowances, associated with the accrued liability for postretirement benefits other than pensions. The future tax deductions with respect to the turnaround of this accrual will occur over a 30-to-40-year period. If such deductions create or increase a net operating loss, the Company has the ability to carry forward such loss for 20 taxable years. For these reasons, the Company believes that a long-term view of profitability is appropriate and has concluded that this net deferred income tax asset will more likely than not be realized.

A substantial portion of the valuation allowances provided by the Company relates to loss and credit carryforwards. To determine the proper amount of valuation allowances with respect to these carryforwards, the Company evaluated all appropriate factors, including any limitations concerning their use and the year the carryforwards expire, as well as the levels of taxable income necessary for utilization. With regard to future levels of income, the Company believes, based on the cyclical nature of its business, its history of operating earnings, and its

expectations for future years, that it will more likely than not generate sufficient taxable income to realize the benefit attributable to the loss and credit carryforwards for which valuation allowances were not provided.

As of December 31, 1998 and 1997, \$46.2 and \$53.7, respectively, of the net deferred income tax assets listed above are included in the Consolidated Balance Sheets in the caption entitled Prepaid expenses and other current assets. Certain other portions of the deferred income tax liabilities listed above are included in the Consolidated Balance Sheets in the captions entitled Other accrued liabilities and Long-term liabilities.

The Company and its domestic subsidiaries file consolidated federal income tax returns. During the period from October 28, 1988, through June 30, 1993, the Company and its domestic subsidiaries were included in the consolidated federal income tax returns of MAXXAM. During 1997 MAXXAM reached a settlement with the Internal Revenue Service regarding all remaining years where the Company and its subsidiaries were included in the MAXXAM consolidated federal income tax returns. As a result of this settlement, KACC paid \$11.8 to MAXXAM during 1997, in respect of its liabilities pursuant to its tax allocation agreement with MAXXAM. Payments or refunds for periods prior to July 1, 1993, related to other jurisdictions could still be required pursuant to the Company's and KACC's respective tax allocation agreements with MAXXAM. In accordance with the Credit Agreement, any such payments to MAXXAM by KACC would require lender approval, except in certain specific circumstances. The tax allocation agreements of the Company and KACC with MAXXAM terminated pursuant to their terms, effective for taxable periods beginning after June 30, 1993.

At December 31, 1998, the Company had certain tax attributes available to offset regular federal income tax requirements, subject to certain limitations, including net operating loss and general business credit carryforwards of \$28.2 and \$4.9, respectively, which expire periodically through 2012 and 2011, respectively, foreign tax credit ("FTC") carryforwards of \$48.4, which expire periodically through 2003, and alternative minimum tax ("AMT") credit carryforwards of \$23.4, which have an indefinite life. The Company also has AMT net operating loss and FTC carryforwards of \$6.2 and \$87.2, respectively, available, subject to certain limitations, to offset future alternative minimum taxable income, which expire periodically through 2011 and 2003, respectively.

7. EMPLOYEE BENEFIT AND INCENTIVE PLANS

In the fourth quarter of 1998 the Company adopted Statement of Financial Accounting Standard No. 132, Employers' Disclosures about Pensions and Other Postretirement Benefits ("SFAS No. 132") which amends FASB Statements No's. 87, 88, and 106. SFAS No. 132 revises the disclosure requirements related to pension and other postretirement benefits, but has no impact on the computation of the reported amounts. Prior year disclosures have been reformatted to comply with SFAS No. 132's guidelines.

PENSION AND OTHER POSTRETIREMENT BENEFIT PLANS

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

The Company and its subsidiaries provide postretirement health care and life insurance benefits to eligible retired employees and their dependents. Substantially all employees may become eligible for those benefits if they reach retirement age while still working for the Company or its subsidiaries. The Company has not funded the liability for these benefits which are expected to be paid out of cash generated by operations. The Company reserves the right, subject to applicable collective bargaining agreements, to amend or terminate these benefits.

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

	Pension Benefits			Medical/Life Benefits		
	1998	1997	1996	1998	1997	1996
Weighted-average assumptions as of December 31,						
Discount rate	7.00%	7.25%	7.75%	7.00%	7.25%	7.75%
Expected return on plan assets	9.50%	9.50%	9.50%	-	-	-
Rate of compensation increase	5.00%	5.00%	5.00%	4.00%	5.00%	5.00%

In 1998 annual assumed rates of increase in the per capita cost of covered benefits (i.e. health care cost trend rate) for non-HMO participants are 6.5% and 5.0% for HMO at all ages. The assumed rate of increase for non-HMO participants is assumed to decline gradually to 5.0% in 2003 and remain at that level thereafter.

The following table presents the funded status of the Company's pension and other postretirement benefit plans as of December 31, 1998 and 1997, and the corresponding amounts that are included in the Company's Consolidated Balance Sheets:

	Pension Benefits		Medical/Life Benefits	
	1998	1997	1998	1997
Change in Benefit Obligation:				
Benefit obligation at beginning of year	\$ 873.0	\$ 816.2	\$ 544.5	\$ 602.8
Service cost	14.2	13.4	4.2	6.1
Interest cost	59.7	61.6	37.5	44.8

Currency exchange rate change	(.4)	(6.0)	-	-
Curtailments, settlements and amendments	(4.6)	-	4.0	-
Actuarial (gain) loss	15.2	65.5	72.0	(66.3)
Benefits paid	(84.6)	(77.7)	(45.4)	(42.9)
	-----	-----	-----	-----
Benefit obligation at end of year	872.5	873.0	616.8	544.5
	-----	-----	-----	-----
Change in Plan Assets:				
FMV of plan assets at beginning of year	756.9	662.0	-	-
Actual return on assets	106.8	131.9	-	-
Settlements	(5.5)	-	-	-
Employer contributions	28.2	40.7	45.4	42.9
Benefits paid	(84.6)	(77.7)	(45.4)	(42.9)
	-----	-----	-----	-----
FMV of plan assets at end of year	801.8	756.9	-	-
	-----	-----	-----	-----
Benefit obligations in excess of plan assets	70.7	116.1	616.8	544.5
Unrecognized net actuarial (gain) loss	23.8	-	55.9	135.0
Unrecognized prior service costs	(18.5)	(22.2)	69.8	86.1
Intangible asset and other	4.3	5.4	-	-
	-----	-----	-----	-----
Accrued benefit liability	\$ 80.3	\$ 99.3	\$ 742.5	\$ 765.6
	=====	=====	=====	=====

	Pension Benefits			Medical/Life Benefits		
	1998	1997	1996	1998	1997	1996
Components of Net Periodic Benefit Costs:						
Service cost	\$ 14.2	\$ 13.4	\$ 12.9	\$ 4.2	\$ 6.1	\$ 3.8
Interest cost	59.7	61.6	60.0	37.5	44.8	46.9
Expected return on assets	(69.4)	(61.8)	(55.0)	-	-	-
Amortization of prior service cost	3.2	3.4	3.5	(12.4)	(12.4)	(12.4)
Recognized net actuarial (gain) loss	1.4	2.6	2.0	(7.1)	(.9)	-
	-----	-----	-----	-----	-----	-----
Net periodic benefit cost	9.1	19.2	23.4	22.2	37.6	38.3
Curtailments, settlements, etc.	3.2	3.7	2.0	-	-	-
	-----	-----	-----	-----	-----	-----
Adjusted net periodic benefit costs	\$ 12.3	\$ 22.9	\$ 25.4	\$ 22.2	\$ 37.6	\$ 38.3
	=====	=====	=====	=====	=====	=====

The aggregate fair value of plan assets and accumulated benefit obligation for pension plans with plan assets in excess of accumulated benefit obligations were \$293.0 and \$280.7, respectively, as of December 31, 1998, and \$287.8 and \$283.4, respectively, as of December 31, 1997.

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plan. A one-percentage-point change in assumed health care cost trend rates would have the following effects:

	1% Increase		1% Decrease	
Increase (decrease) to total of service and interest cost	\$	5.8	\$	(4.3)
Increase (decrease) to the postretirement benefit obligation	\$	64.3	\$	(45.4)

POSTEMPLOYMENT BENEFITS

The Company provides certain benefits to former or inactive employees after employment but before retirement.

INCENTIVE PLANS

The Company has an unfunded incentive compensation program, which provides incentive compensation based on performance against annual plans and over rolling three-year periods. In addition, the Company has a "nonqualified" stock option plan and KACC has a defined contribution plan for salaried employees. The Company's expense for all of these plans was \$7.5, \$8.3, and \$(2.1) for the years ended December 31, 1998, 1997, and 1996, respectively.

Up to 8,000,000 shares of the Company's Common Stock were reserved for issuance under its stock incentive compensation plans. At December 31, 1998, 3,634,621 shares of Common Stock remained available for issuance under those plans. Stock options granted pursuant to the Company's nonqualified stock option program are granted at the prevailing market price, generally vest at a rate of 20 - 33% per year, and have a five or ten year term. Information concerning nonqualified stock option plan activity is shown below. The weighted average price per share for each year is shown parenthetically.

	1998	1997	1996
Outstanding at beginning of year (\$10.45, \$10.33, and \$10.32)	819,752	890,395	926,085
Granted (\$9.79 and \$10.06)	2,263,170	15,092	-
Exercised (\$7.25, \$8.33, and \$8.99)	(10,640)	(48,410)	(8,275)
Expired or forfeited (\$9.60, \$10.12, and \$10.45)	(23,160)	(37,325)	(27,415)
	-----	-----	-----

Outstanding at end of year (\$9.98, \$10.45, and \$10.33)	3,049,122	819,752	890,395
	=====	=====	=====
Exercisable at end of year (\$10.09, \$10.53, and \$10.47)	1,261,262	601,115	436,195
	=====	=====	=====

In accordance with Statement of Financial Accounting Standards No. 123, Accounting for Stock Based Compensation ("SFAS No. 123"), the Company is required to calculate pro forma compensation cost for all stock options granted subsequent to December 31, 1994. No stock options were granted during 1996. However, as shown in the table above, options were granted in 1998 and 1997 which would be subject to the pro forma calculation requirements. For SFAS No. 123 purposes, the fair value of the 1998 and 1997 stock option grants were estimated using a Black-Scholes option pricing model. The proforma after-tax effect of the estimated fair value of the grants would be to reduce net income in 1998 and 1997 by \$1.5 and \$.1, respectively.

8. STOCKHOLDERS' EQUITY, COMPREHENSIVE INCOME AND MINORITY INTERESTS Changes in stockholders' equity and comprehensive income were:

	Preferred Stock	Common Stock	Additional Capital	Accu- mulated Deficit	Additional Minimum Pension Liability	Total
BALANCE, DECEMBER 31, 1995	\$.4	\$.7	\$ 530.3	\$ (459.9)	\$ (13.8)	\$ 57.7
Net income				8.2		8.2
Minimum pension liability adjustment, net of tax					11.0	11.0
Comprehensive income						19.2
Common stock issued upon redemption and conversion of preferred stock			.1			.1
Dividends on preferred stock				(8.4)		(8.4)
Incentive plan accretion			.7			.7
BALANCE, DECEMBER 31, 1996	.4	.7	531.1	(460.1)	(2.8)	69.3
Net income				48.0		48.0
Minimum pension liability adjustment, net of tax					2.8	2.8
Comprehensive income						50.8
Common stock issued upon redemption and conversion of preferred stock	(.4)	.1	1.7			1.4
Stock options exercised			.4			.4
Dividends on preferred stock				(5.5)		(5.5)
Incentive plan accretion			.6			.6
BALANCE, DECEMBER 31, 1997	-	.8	533.8	(417.6)	-	117.0
Net income/Comprehensive income				.6		.6
Stock options exercised			.1			.1
Incentive plan accretion			1.5			1.5
BALANCE, DECEMBER 31, 1998	\$ -	\$.8	\$ 535.4	\$ (417.0)	\$ -	\$ 119.2

Changes in minority interest were:

	1998		1997		1996	
	Redeemable Preference Stock	Other	Redeemable Preference Stock	Other	Redeemable Preference Stock	Other
Beginning of period balance	\$ 27.7	\$ 100.0	\$ 27.5	\$ 94.2	\$ 29.7	\$ 93.0
Redeemable preference stock Accretion	1.1		2.3		3.1	
Stock redemption	(8.7)		(2.1)		(5.3)	
Minority interests		3.4		5.8		1.2
End of period balance	\$ 20.1	\$ 103.4	\$ 27.7	\$ 100.0	\$ 27.5	\$ 94.2

REDEEMABLE PREFERENCE STOCK

In 1985, KACC issued its Cumulative (1985 Series A) Preference Stock and its Cumulative (1985 Series B) Preference Stock (together, the "Redeemable Preference Stock") each of which has a par value of \$1 per share and a liquidation and redemption value of \$50 per share plus accrued dividends, if any. No additional Redeemable Preference Stock is expected to be issued. Holders of the Redeemable Preference Stock are entitled to an annual cash dividend of \$5 per share, or an amount based on a formula tied to KACC's pre-tax income from aluminum operations, when and as declared by the Board of Directors.

The carrying values of the Redeemable Preference Stock are increased each year to recognize accretion between the fair value (at which the Redeemable Preference Stock was originally issued) and the redemption value. Changes in Redeemable Preference Stock are shown below.

	1998	1997	1996
Shares:			
Beginning of year	595,053	634,684	737,363
Redeemed	(173,478)	(39,631)	(102,679)
End of year	421,575	595,053	634,684

Redemption fund agreements require KACC to make annual payments by March 31 of the subsequent year based on a formula tied to consolidated net income until the redemption funds are sufficient to redeem all of the Redeemable Preference Stock. On an annual basis, the minimum payment is \$4.3 and the maximum payment is \$7.3. KACC also has certain additional repurchase requirements which are, among other things, based upon profitability tests.

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

PREFERENCE STOCK

KACC has four series of \$100 par value Cumulative Convertible Preference Stock ("\$100 Preference Stock") with annual dividend requirements of between 4-1/8% and 4-3/4%. KACC has the option to redeem the \$100 Preference Stock at par value plus accrued dividends. KACC does not intend to issue any additional shares of the \$100 Preference Stock.

The \$100 Preference Stock can be exchanged for per share cash amounts between \$69 - \$80. KACC records the \$100 Preference Stock at their exchange amounts for financial statement presentation and the Company includes such amounts in minority interests. At December 31, 1998 and 1997, outstanding shares of \$100 Preference Stock were 19,963 and 20,543, respectively.

PREFERRED STOCK

PRIDES Convertible - During August 1997, the remaining 8,673,850 outstanding shares of PRIDES were converted into 7,227,848 shares of Common Stock pursuant to the terms of the PRIDES Certificate of Designations. Further, in accordance with the PRIDES Certificate of Designations, no dividends were paid or payable for the period June 30, 1997, to, but not including, the date of conversion. However, in accordance with generally accepted accounting principles, the \$1.3 of accrued dividends attributable to the period June 30, 1997, to, but not including, the conversion date were treated as an increase in Additional capital at the date of conversion and were reflected as a reduction of Net income available to common shareholders.

PLEGDED SHARES

From time to time MAXXAM or certain of its subsidiaries which own the Company's Common Stock may use such stock as collateral under various financing arrangements. At December 31, 1998, 27,938,250 shares of the Company's Common Stock beneficially owned by MAXXAM Group Holdings Inc. ("MGHI"), a wholly owned subsidiary of MAXXAM, were pledged as security for \$130.0 principal amount of 12% Senior Secured Notes due 2003 issued in December 1996 by MGHI. An additional 7,915,000 shares of the Company's Common Stock were pledged by MAXXAM under a separate agreement under which \$16.0 had been borrowed by MAXXAM at December 31, 1998. In addition to the foregoing, MAXXAM has agreed to secure each \$1.0 of borrowings with 400,000 shares of the Company's Common Stock under the terms of another \$25.0 credit facility (\$2.5 outstanding at December 31, 1998).

9. COMMITMENTS AND CONTINGENCIES

COMMITMENTS

KACC has a variety of financial commitments, including purchase agreements, tolling arrangements, forward foreign exchange and forward sales contracts (see Note 10), letters of credit, and guarantees. Such purchase agreements and tolling arrangements include long-term agreements for the purchase and tolling of bauxite into alumina in Australia by QAL. These obligations expire in 2008. Under the agreements, KACC is unconditionally obligated to pay its proportional share of debt, operating costs, and certain other costs of QAL. KACC's share of the aggregate minimum amount of required future principal payments at December 31, 1998, is \$97.6, of which approximately \$12.0 is due in each of 2000 and 2001 with the balance being due thereafter. KACC's share of payments, including operating costs and certain other expenses under the agreements, has ranged between \$100.0 - \$120.0 over the past three years. KACC also has agreements to supply alumina to and to purchase

aluminum from Anglesey.

Minimum rental commitments under operating leases at December 31, 1998, are as follows: years ending December 31, 1999 - \$35.8; 2000 - \$33.4; 2001 - \$31.1; 2002 - \$27.3; 2003 - \$26.1; thereafter - \$114.7. The future minimum rentals receivable under noncancelable subleases was \$73.5 at December 31, 1998.

Rental expenses were \$34.5, \$30.4, and \$29.6, for the years ended December 31, 1998, 1997, and 1996, respectively.

ENVIRONMENTAL CONTINGENCIES

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

Based on the Company's evaluation of these and other environmental matters, the Company has established environmental accruals, primarily related to potential solid waste disposal and soil and groundwater remediation matters. The following table presents the changes in such accruals, which are primarily included in Long-term liabilities, for the years ended December 31, 1998, 1997, and 1996:

	1998	1997	1996
Balance at beginning of period	\$ 29.7	\$ 33.3	\$ 38.9
Additional accruals	24.5	2.0	3.2
Less expenditures	(3.5)	(5.6)	(8.8)
Balance at end of period	\$ 50.7	\$ 29.7	\$ 33.3

These environmental accruals represent the Company's estimate of costs reasonably expected to be incurred based on presently enacted laws and regulations, currently available facts, existing technology, and the Company's assessment of the likely remediation action to be taken. The Company expects that these remediation actions will be taken over the next several years and estimates that annual expenditures to be charged to these environmental accruals will be approximately \$3.0 to \$8.0 for the years 1999 through 2003 and an aggregate of approximately \$29.0 thereafter.

As additional facts are developed and definitive remediation plans and necessary regulatory approvals for implementation of remediation are established or alternative technologies are developed, changes in these and other factors may result in actual costs exceeding the current environmental accruals. As the resolution of these matters is subject to further regulatory review and approval, no specific assurance can be given as to when the factors upon which a substantial portion of this estimate is based can be expected to be resolved. However, the Company is currently working to resolve certain of these matters.

The Company believes that it has insurance coverage available to recover certain incurred and future environmental costs and is actively pursuing claims in this regard. Through September 30, 1998, no accruals were made for any such insurance recoveries. However, during December 1998, KACC received recoveries totaling approximately \$35.0 from certain of its insurers related to current and future claims. Based on the Company's analysis, a total of \$12.0 of such recoveries was allocable to previously accrued (expensed) items and, therefore, was reflected in earnings during the fourth quarter of 1998. The remaining recoveries were offset against increases in the total amount of environmental reserves. No assurances can be given that the Company will be successful in other attempts to recover incurred or future costs from other insurers or that the amount of recoveries received will ultimately be adequate to cover costs incurred.

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

ASBESTOS CONTINGENCIES

KACC is a defendant in a number of lawsuits, some of which involve claims of multiple persons, in which the plaintiffs allege that certain of their injuries were caused by, among other things, exposure to asbestos during, and as a result of, their employment or association with KACC or exposure to products containing asbestos produced or sold by KACC. The lawsuits generally relate to products KACC has not sold for at least 20 years.

The following table presents the changes in number of such claims pending for the years ended December 31, 1998, 1997, and 1996.

	1998	1997	1996
Number of claims at beginning of period	77,400	71,100	59,700
Claims received	22,900	15,600	21,100
Claims settled or dismissed	(13,900)	(9,300)	(9,700)

Number of claims at end of period

86,400

77,400

71,100

The foregoing claims and settlement figures as of December 31, 1998, do not reflect the fact that KACC has reached agreements under which it will settle approximately 30,000 of the pending asbestos-related claims over an extended period.

Based on past experience and reasonably anticipated future activity, the Company has established an accrual for estimated asbestos-related costs for claims filed and estimated to be filed through 2008. There are inherent uncertainties involved in estimating asbestos-related costs, and the Company's actual costs could exceed these estimates. The Company's accrual was calculated based on the current and anticipated number of asbestos-related claims, the prior timing and amounts of asbestos-related payments, and the advice of Wharton Levin Ehrmantraut Klein & Nash, P.A., with respect to the current state of the law related to asbestos claims. Accordingly, an estimated asbestos-related cost accrual of \$186.2, before consideration of insurance recoveries, is included primarily in Long-term liabilities at December 31, 1998. While the Company does not presently believe there is a reasonable basis for estimating such costs beyond 2008 and, accordingly, no accrual has been recorded for such costs which may be incurred beyond 2008, there is a reasonable possibility that such costs may continue beyond 2008, and such costs may be substantial. The Company estimates that annual future cash payments in connection with such litigation will be approximately \$16.0 to \$28.0 for each of the years 1999 through 2003, and an aggregate of approximately \$77.0 thereafter.

The Company believes that KACC has insurance coverage available to recover a substantial portion of its asbestos-related costs. Although the Company has settled asbestos-related coverage matters with certain of its insurance carriers, other carriers have not yet agreed to settlements. The timing and amount of future recoveries from these insurance carriers will depend on the pace of claims review and processing by such carriers and on the resolution of any disputes regarding coverage under such policies. The Company believes that substantial recoveries from the insurance carriers are probable. The Company reached this conclusion after considering its prior insurance-related recoveries in respect of asbestos-related claims; its existing insurance policies; and the advice of Heller Ehrman White & McAuliffe with respect to applicable insurance coverage law relating to the terms and conditions of those policies. Accordingly, an estimated aggregate insurance recovery of \$152.5, determined on the same basis as the asbestos-related cost accrual, is recorded primarily in Other assets at December 31, 1998.

Management continues to monitor claims activity, the status of lawsuits (including settlement initiatives), legislative progress, and costs incurred in order to ascertain whether an adjustment to the existing accruals should be made to the extent that historical experience may differ significantly from the Company's underlying assumptions. While uncertainties are inherent in the final outcome of these asbestos matters and it is presently impossible to determine the actual costs that ultimately may be incurred and insurance recoveries that will be received, management currently believes that, based on the factors discussed in the preceding paragraphs, the resolution of asbestos-related uncertainties and the incurrence of asbestos-related costs net of related insurance recoveries should not have a material adverse effect on the Company's consolidated financial position, results of operations, or liquidity.

LABOR MATTERS

In connection with the USWA strike and subsequent "lock-out" by KACC, certain allegations of unfair labor practices ("ULPs") have been filed with the National Labor Relations Board by the USWA and its members. KACC has responded to all such allegations and believes that they are without merit. If the allegations were sustained, KACC could be required to make locked-out employees whole for back wages from the date of the lock-out in January 1999. While uncertainties are inherent in the final outcome of such matters, the Company believes that the resolution of the alleged ULPs should not result in a material adverse impact on the Company's financial position, results of operations, or liquidity.

OTHER CONTINGENCIES

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

10. DERIVATIVE FINANCIAL INSTRUMENTS AND RELATED HEDGING PROGRAMS

At December 31, 1998, the net unrealized gain on KACC's position in aluminum forward sales and option contracts, natural gas and fuel oil forward purchase and option contracts, and forward foreign exchange contracts, was approximately \$17.8 (based on comparisons to applicable year-end published market prices). As KACC's hedging activities are generally designed to lock-in a specified price or range of prices, gains or losses on the derivative contracts utilized in these hedging activities will be offset by losses or gains, respectively, on the transactions being hedged.

ALUMINA AND ALUMINUM

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

From time to time in the ordinary course of business, KACC enters into hedging transactions to provide price risk management in respect of the net exposure of earnings resulting from (i) anticipated sales of alumina, primary aluminum and fabricated aluminum products, less (ii) expected purchases of certain items, such as aluminum scrap, rolling ingot, and bauxite, whose prices fluctuate with the price of primary aluminum. Forward sales contracts are used by KACC to effectively fix the price that KACC will receive for its shipments. KACC also uses option contracts (i) to establish a minimum price for its product shipments, (ii) to establish a "collar" or range of price for KACC's anticipated sales, and/or (iii) to permit KACC to realize possible upside price movements. As of December 31, 1998, KACC had sold forward, at fixed prices, approximately 24,000 tons of primary aluminum with respect to 1999. As of December 31, 1998, KACC had also entered into option contracts that established a price range for an additional 125,000 and 72,000 tons of primary aluminum with respect to 1999 and 2000, respectively. Subsequent to December 31, 1998, KACC has also entered into additional option contracts that established a price range for an additional 201,000 tons of primary aluminum with respect to 2000.

Additionally, through December 31, 1998, KACC had also entered a series of transactions with a counterparty that will provide KACC with a premium over the forward market prices at the date of the transaction for 2,000 tons of primary aluminum per month during the period July 1999 through June 2001. KACC also contracted with the counterparty to receive certain fixed prices (also above the forward market prices at the date of the transaction) on 4,000 tons of primary aluminum per month over a three year period commencing October 2001, unless market prices during certain periods decline below a stipulated "floor" price, in which case, the fixed price sales portion of the transactions terminate. The price at which the October 2001 and after transactions terminate is well below current market prices. While the Company believes that the October 2001 and after transactions are consistent with its stated hedging objectives, these positions do not qualify for treatment as a "hedge" under current accounting guidelines. Accordingly, these positions will be "marked to market" each period.

As of December 31, 1998, KACC had sold forward virtually all of the alumina available to it in excess of its projected internal smelting requirements for 1999 and 2000 at prices indexed to future prices of primary aluminum.

ENERGY

KACC is exposed to energy price risk from fluctuating prices for fuel oil and natural gas consumed in the production process. Accordingly, KACC from time to time in the ordinary course of business enters into hedging transactions with major suppliers of energy and energy related financial instruments. As of December 31, 1998, KACC had a combination of fixed price purchase and option contracts for the purchase of approximately 33,000 MMBtu of natural gas per day during 1999. At December 31, 1998, KACC also held a combination of fixed price purchase and option contracts for an average of 246,000 barrels per month of fuel oil and diesel fuel for 1999.

FOREIGN CURRENCY

KACC enters into forward exchange contracts to hedge material cash commitments to foreign subsidiaries or affiliates. At December 31, 1998, KACC had net forward foreign exchange contracts totaling approximately \$141.4 for the purchase of 210.6 Australian dollars from January 1999 through December 2000, in respect of its commitments for 1999 and 2000 expenditures denominated in Australian dollars.

11. SEGMENT AND GEOGRAPHICAL AREA INFORMATION

The Company's operations are located in many foreign countries, including Australia, Canada, Ghana, Jamaica, and the United Kingdom. Foreign operations in general may be more vulnerable than domestic operations due to a variety of political and other risks. Sales and transfers among geographic areas are made on a basis intended to reflect the market value of products.

The Company's operations are organized and managed by product type. The Company operates in four segments of the aluminum industry: Alumina and bauxite, Primary aluminum, Flat-rolled products and Engineered products. The Alumina and bauxite business unit's principal products are smelter grade alumina and chemical grade alumina hydrate, a value-added product, for which the Company receives a premium over smelter grade market prices. The Primary aluminum business unit produces commodity grade products as well as value-added products such as rod and billet, for which the Company receives a premium over normal commodity market prices. The Flat-rolled products group primarily sells rigid container sheet to can manufacturers as well as value-added products such as heat treat aluminum sheet and plate which are used in the aerospace and general engineering markets. The Engineered products business unit serves a wide range of industrial segments including the automotive, distribution, aerospace and general engineering markets.

The Company uses a portion of its bauxite, alumina and primary aluminum production for additional processing at its downstream facilities. Transfers between business units are made at estimated market prices. The accounting policies of the segments are the same as those described in Note

1. Business unit results are evaluated internally by management before any allocation of corporate overhead and without any charge for income taxes or interest expense.

The following segment information differs from that presented in prior years as a result of the Company's adoption of Statement of Financial Accounting Standard No.131, as of December 31, 1998. Prior year information has been restated to conform to the Company's new presentation format.

Financial information by operating segment at December 31, 1998, 1997 and 1996 is as follows:

	Year Ended December 31,		
	1998	1997	1996

Net Sales:			
Bauxite and Alumina:			
Net sales to unaffiliated customers	\$ 472.7	\$ 411.7	\$ 431.0
Intersegment sales	135.8	201.7	194.1
	-----	-----	-----
	608.5	613.4	625.1
	-----	-----	-----
Primary Aluminum:			
Net sales to unaffiliated customers	409.8	543.4	538.3
Intersegment sales	233.5	273.8	217.4
	-----	-----	-----
	643.3	817.2	755.7
	-----	-----	-----
Flat-Rolled Products	714.6	743.3	626.0
Engineered Products	581.3	581.0	504.4
Minority interests	78.0	93.8	90.8
Eliminations	(369.3)	(475.5)	(411.5)
	-----	-----	-----
	\$ 2,256.4	\$ 2,373.2	\$ 2,190.5
	=====	=====	=====
Equity in income (loss) of unconsolidated affiliates:			
Bauxite and Alumina	\$ (3.2)	\$ (7.0)	\$ 1.7
Primary Aluminum	1.2	5.1	6.7
Engineered Products	7.8	4.8	-
Corporate and Other	(.4)	-	.4
	-----	-----	-----
	\$ 5.4	\$ 2.9	\$ 8.8
	=====	=====	=====
Operating income (loss):			
Bauxite and Alumina	\$ 42.0	\$ 54.2	\$ 27.7
Primary Aluminum	49.9	148.3	79.1
Flat-Rolled Products	70.8	28.2	35.3
Engineered Products	47.5	42.3	21.7
Micromill (1)	(63.4)	(24.5)	(14.5)
Eliminations	8.9	(5.9)	8.3
Corporate and Other	(65.1)	(74.6)	(59.8)
	-----	-----	-----
	\$ 90.6	\$ 168.0	\$ 97.8
	=====	=====	=====
Depreciation and amortization:			
Bauxite and Alumina	\$ 36.4	\$ 39.4	\$ 41.5
Primary Aluminum	29.9	30.4	33.0
Flat-Rolled Products	16.1	16.0	16.9
Engineered Products	10.8	11.2	12.1
Micromill	3.6	3.2	.5
Corporate and Other	2.3	2.3	3.6
	-----	-----	-----
	\$ 99.1	\$ 102.5	\$ 107.6
	=====	=====	=====
Capital expenditures:			
Bauxite and Alumina	\$ 26.9	\$ 27.8	\$ 29.9
Primary Aluminum	20.7	42.6	28.1
Flat-Rolled Products	20.4	16.8	22.7
Engineered Products	8.4	31.2	18.3
Micromill	.2	8.3	56.4
Corporate and Other	1.0	1.8	6.1
	-----	-----	-----
	\$ 77.6	\$ 128.5	\$ 161.5
	=====	=====	=====

(1) 1998 includes \$45.0 fourth quarter impairment charge.

	December 31,	
	1998	1997

Investments in and advances to unconsolidated affiliates:		
Bauxite and Alumina	\$ 76.8	\$ 88.3
Primary Aluminum	27.6	33.2
Engineered Products	23.9	17.5
Corporate and Other	-	9.6
	-----	-----
	\$ 128.3	\$ 148.6
	=====	=====
Segment assets:		
Bauxite and Alumina	\$ 669.0	\$ 692.8
Primary Aluminum	580.8	633.9

Flat-Rolled Products	431.2	466.5
Engineered Products	294.5	318.6
Micromill	25.3	63.4
Corporate and Other	990.1	838.7
	-----	-----
	\$ 2,990.9	\$ 3,013.9
	=====	=====

Geographical area information relative to the Company's operations is summarized as follows:

	Year Ended December 31,		
	1998	1997	1996
Net sales to unaffiliated customers:			
United States	\$ 1,698.0	\$ 1,720.3	\$ 1,610.0
Jamaica	237.0	204.6	201.8
Ghana	89.8	234.2	198.3
Other Foreign	231.6	214.1	180.4
	-----	-----	-----
	\$ 2,256.4	\$ 2,373.2	\$ 2,190.5
	=====	=====	=====

	December 31,	
	1998	1997
Long-lived assets: (1)		
United States	\$ 757.9	\$ 809.5
Jamaica	289.2	283.4
Ghana	90.2	100.4
Other Foreign	99.7	127.1
	-----	-----
	\$ 1,237.0	\$ 1,320.4
	=====	=====

(1) Long-lived assets include Property, plant, and equipment, net, and Investments in and advances to unconsolidated affiliates.

The aggregate foreign currency gain included in determining net income was immaterial for the years ended December 31, 1998, 1997, and 1996. No single customer accounted for sales in excess of 10% of total revenue in 1998, 1997, or 1996.

Export sales were less than 10% of total revenue during the years ended December 31, 1998, 1997, and 1996.

12. SUBSEQUENT EVENTS During the first quarter of 1999, two potlines at the Company's 90% owned Valco facility, which were curtailed during most of 1998 (but for which Valco received compensation from the Volta River Authority in the form of energy credits) are being restarted. Additionally, during the first quarter of 1999 KACC began restarting two potlines (representing approximately 50,000 tons of annual capacity) at its Mead, Washington, smelter, which were originally curtailed in September 1998 as a result of the USWA strike. One potline at the Company's Tacoma, Washington, smelter has been prepared for restart, but remains curtailed due to management's consideration of market-related and other factors. The Company's first quarter results will be adversely impacted by the effect of the restart costs at the Valco and Mead facilities and the restart preparations at the Tacoma facility.

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

During January 1999, KACC signed a letter of intent to sell its 50% interest in AKW, an aluminum wheels joint venture, to its partner. The sale, which will result in the Company recognizing a net substantial gain, is expected to be completed on or about March 31, 1999. However, as the transaction is subject to the negotiation of a definitive purchase agreement, no assurances can be given that the transaction will be completed. The Company's equity in income of AKW was \$7.8 and \$4.8 for the years ended December 31, 1998 and 1997, respectively.

KAISER ALUMINUM CORPORATION AND SUBSIDIARY COMPANIES QUARTERLY FINANCIAL DATA (UNAUDITED)

(In millions of dollars, except share amounts)	Quarter Ended			
	March 31,	June 30,	September 30,	December 31,
1998				
Net sales	\$ 597.0	\$ 614.8	\$ 541.6	\$ 503.0
Operating income (loss)	44.8	55.3	30.8	(40.3)
Net income (loss)	12.0	16.7	10.8 (1)	(38.9) (2)
Earnings (loss) per share:				
Basic/Diluted	.15	.21	.14	(.49) (2)
Common stock market price:				
High	11	11-5/8	9-5/8	7-3/4
Low	8-1/8	8-7/8	5-5/8	4-5/8
1997				
Net sales	\$ 547.4	\$ 597.1	\$ 634.1	\$ 594.6
Operating income	31.3	35.3	54.5	46.9
Net income	2.6	13.7 (3)	17.5	14.2
Earnings per share:				
Basic/Diluted	.01	.16	.22	.18
Common stock market price:				
High	13-5/8	12-1/4	16	14-7/8
Low	10-7/8	10-1/8	11-5/8	8-3/8

(1) Includes two essentially offsetting non-recurring items, a favorable \$8.3 non-cash tax provision benefit resulting from the resolution of certain matters and an approximate \$10.0 unfavorable gross profit impact of preparing for a strike by employees represented by the USWA at five locations.

(2) Includes an unfavorable pre-tax strike-related gross profit impact of approximately \$50.0, and a non-cash pre-tax charge of \$45.0 related to impairment of the Company's Micromill assets. Excluding these items basic earnings per share would have been approximately \$.29.

(3) Includes a \$19.7 pre-tax charge for restructuring of operations, an offsetting after-tax benefit of \$12.5 related to the settlement of certain tax matters and a \$5.8 pre-tax charge for litigation matters.

KAISER ALUMINUM CORPORATION AND SUBSIDIARY COMPANIES FIVE-YEAR FINANCIAL DATA CONSOLIDATED BALANCE SHEETS

(In millions of dollars)	December 31,				
	1998	1997	1996	1995	1994
ASSETS					
Current assets:					
Cash and cash equivalents	\$ 98.3	\$ 15.8	\$ 81.3	\$ 21.9	\$ 17.6
Receivables	282.7	340.2	252.4	308.6	199.2
Inventories	543.5	568.3	562.2	525.7	468.0
Prepaid expenses and other current assets	105.5	121.3	127.8	76.6	158.0
Total current assets	1,030.0	1,045.6	1,023.7	932.8	842.8
Investments in and advances to unconsolidated affiliates	128.3	148.6	168.4	178.2	169.7
Property, plant, and equipment - net	1,108.7	1,171.8	1,168.7	1,109.6	1,133.2
Deferred income taxes	377.9	330.6	264.5	269.1	271.2
Other assets	346.0	317.3	308.7	323.5	281.2
Total	\$ 2,990.9	\$ 3,013.9	\$ 2,934.0	\$ 2,813.2	\$ 2,698.1
Liabilities and Stockholders' Equity					
Current liabilities:					
Accounts payable and accruals	\$ 432.7	\$ 457.3	\$ 453.4	\$ 451.2	\$ 439.3
Accrued postretirement medical benefit obligation - current portion	48.2	45.3	50.1	46.8	47.0
Payable to affiliates	77.1	82.7	97.0	94.2	85.3
Long-term debt - current portion	.4	8.8	8.9	8.9	11.5
Total current liabilities	558.4	594.1	609.4	601.1	583.1
Long-term liabilities	532.9	491.9	458.1	548.5	495.5
Accrued postretirement medical benefit obligation	694.3	720.3	722.5	734.0	734.9
Long-term debt	962.6	962.9	953.0	749.2	751.1
Minority interests	123.5	127.7	121.7	122.7	116.2
Stockholders' equity:					
Preferred stock	-	-	.4	.4	.6
Common stock	.8	.8	.7	.7	.6
Additional capital	535.4	533.8	531.1	530.3	527.8
Retained earnings (accumulated deficit)	(417.0)	(417.6)	(460.1)	(459.9)	(502.6)
Accumulated other comprehensive income	-	-	(2.8)	(13.8)	(9.1)

Total stockholders' equity	119.2	117.0	69.3	57.7	17.3
Total	\$ 2,990.9	\$ 3,013.9	\$ 2,934.0	\$ 2,813.2	\$ 2,698.1
Debt-to-capital ratio(1)	76.9	77.8	81.2	78.1	82.4

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

KAISER ALUMINUM CORPORATION AND SUBSIDIARY COMPANIES FIVE - YEAR FINANCIAL DATA STATEMENTS OF CONSOLIDATED INCOME

(LOSS)

(In millions of dollars, except share amounts)	Year Ended December 31,				
	1998	1997	1996	1995	1994
Net sales	\$ 2,256.4	\$ 2,373.2	\$ 2,190.5	\$ 2,237.8	\$ 1,781.5
Costs and expenses:					
Cost of products sold	1,906.2	1,951.2	1,857.5	1,787.0	1,613.9
Depreciation and amortization	99.1	102.5	107.6	105.7	107.0
Selling, administrative, research and development, and general	115.5	131.8	127.6	134.5	116.8
Impairment of Micromill(TM) assets/restructuring of operations	45.0	19.7	-	-	-
Total costs and expenses	2,165.8	2,205.2	2,092.7	2,027.2	1,837.7
Operating income (loss) (1)	90.6	168.0	97.8	210.6	(56.2)
Other income (expense):					
Interest expense	(110.0)	(110.7)	(93.4)	(93.9)	(88.6)
Other - net	3.5	3.0	(2.7)	(14.1)	(7.3)
Income (loss) before income taxes, minority interests, and extraordinary loss	(15.9)	60.3	1.7	102.6	(152.1)
Benefit (provision) for income taxes	16.4	(8.8)	9.3	(37.2)	53.8
Minority interests	.1	(3.5)	(2.8)	(5.1)	(3.1)
Income (loss) before extraordinary loss	.6	48.0	8.2	60.3	(101.4)
Extraordinary loss on early extinguishments of debt, net of tax benefit of \$2.9	-	-	-	-	(5.4)
Net income (loss)	.6	48.0	8.2	60.3	(106.8)
Preferred stock dividends	-	(5.5)	(8.4)	(17.6)	(20.1)
Net income (loss) available to common shareholders	\$.6	\$ 42.5	\$ (.2)	\$ 42.7	\$ (126.9)
Earnings (loss) per share:					
Basic/Diluted	\$.01	\$.57	\$.00	\$.69	\$ (2.18)
Weighted average shares outstanding (000):					
Basic	79,115	74,221	71,644	62,000	58,139
Diluted	79,156	74,382	71,644	62,264	58,139

(1) 1998 includes an adverse strike-related impact of approximately \$60.0.

EXECUTION COPY
FOURTEENTH AMENDMENT TO CREDIT AGREEMENT
THIS FOURTEENTH AMENDMENT TO CREDIT AGREEMENT (this

"Amendment"), dated as of December 11, 1998, is by and between KAISER ALUMINUM & CHEMICAL CORPORATION, a Delaware corporation (the "Company"), KAISER ALUMINUM CORPORATION, a Delaware corporation (the "Parent Guarantor"), the various financial institutions that are or may from time to time become parties to the Credit Agreement referred to below (collectively, the "Lenders" and, individually, a "Lender"), and BANKAMERICA BUSINESS CREDIT, INC., a Delaware corporation, as agent (in such capacity, together with its successors and assigns in such capacity, the "Agent") for the Lenders. Capitalized terms used, but not defined, herein shall have the meanings given to such terms in the Credit Agreement, as amended hereby.

WITNESSETH:

WHEREAS, the Company, the Parent Guarantor, the Lenders and the Agent are parties to the Credit Agreement, dated as of February 15, 1994, as amended by the First Amendment to Credit Agreement, dated as of July 21, 1994, the Second Amendment to Credit Agreement, dated as of March 10, 1995, the Third Amendment to Credit Agreement and Acknowledgement, dated as of July 20, 1995, the Fourth Amendment to Credit Agreement, dated as of October 17, 1995, the Fifth Amendment to Credit Agreement, dated as of December 11, 1995, the Sixth Amendment to Credit Agreement, dated as of October 1, 1996, the Seventh Amendment to Credit Agreement, dated as of December 17, 1996, the Eighth Amendment to Credit Agreement, dated as of February 24, 1997, the Ninth Amendment to Credit Agreement and Acknowledgment, dated as of April 21, 1997, the Tenth Amendment to Credit Agreement and Assignment, dated as of June 25, 1997, the Eleventh Amendment to Credit Agreement and Limited Waivers, dated as of October 20, 1997, the Twelfth Amendment to Credit Agreement, dated as of January 13, 1998, and the Thirteenth Amendment to Credit Agreement, dated as of July 20, 1998 (the "Credit Agreement"); and

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

NOW, THEREFORE, the parties hereto agree as follows:

Section 1. Amendments to Credit Agreement.

1.1 Amendments to Article IX: Covenants.

A. Section 9.2.4 of the Credit Agreement is hereby amended to read in its entirety as follows:

"SECTION 9.2.4. Financial Condition.

(a) Net Worth. The Company shall not permit Net Worth as of the end of any Fiscal Quarter set forth below to be less than the correlative amount indicated:

Fiscal Quarter
Net Worth

First Fiscal Quarter of 1994
\$450,000,000

Second Fiscal Quarter of 1994
\$433,000,000

Third Fiscal Quarter of 1994
\$416,000,000

Fourth Fiscal Quarter of 1994
\$400,000,000

First Fiscal Quarter of 1995
\$396,000,000

Second Fiscal Quarter of 1995
\$392,000,000

Third Fiscal Quarter of 1995
\$388,000,000

Fourth Fiscal Quarter of 1995
\$385,000,000

First Fiscal Quarter of 1996
\$391,000,000

Second Fiscal Quarter of 1996
\$397,000,000

Third Fiscal Quarter of 1996
Minimum Net Worth

and each Fiscal Quarter
thereafter

; provided that for purposes of this Section 9.2.4(a), the calculation of Net Worth shall exclude the effect of any non-cash charges, up to an aggregate amount of \$50,000,000, in respect of the Micromill project, including (without limitation) any write-down of assets located at the Center for Technology in Pleasanton, California, and at the Micromill facility near Reno, Nevada.

(b) Interest Coverage Ratio. The Company shall not permit the Interest Coverage Ratio (i) for the one Fiscal Quarter period ending March 31, 1996 to be less than 1.1 to 1.0, (ii) for the two Fiscal Quarter period ending June 30, 1996 to be less than 1.2 to 1.0, (iii) for the three Fiscal Quarter period ending September 30, 1996 to be less than 0.5 to 1.0, (iv) for the four Fiscal Quarter period ending December 31, 1996 to be less than 0.3 to 1.0, (v) for the one Fiscal Quarter period ending June 30, 1997 to be less than 0.2 to 1.0, (vi) for the two Fiscal Quarter period ending September 30, 1997 to be less than 0.4 to 1.0, (vii) for the three Fiscal Quarter period ending December 31, 1997 to be less than 0.6 to 1.0 and (viii) for the four Fiscal Quarter period ending on the last day of each of the Fiscal Quarters set forth below to be less than the correlative ratio indicated:

Date
Ratio

First Fiscal Quarter of 1998
0.80 to 1.0

Second Fiscal Quarter of 1998

1.20 to 1.0

Third Fiscal Quarter of 1998
1.60 to 1.0

Fourth Fiscal Quarter of 1998
1.10 to 1.0

First Fiscal Quarter of 1999
0.90 to 1.0

Second Fiscal Quarter of 1999
0.75 to 1.0

Third Fiscal Quarter of 1999
0.75 to 1.0

Fourth Fiscal Quarter of 1999
1.00 to 1.0

First Fiscal Quarter of 2000
1.00 to 1.0

Second Fiscal Quarter of 2000
1.25 to 1.0

Third Fiscal Quarter of 2000
1.25 to 1.0

Fourth Fiscal Quarter of 2000
1.50 to 1.0

First Fiscal Quarter of 2001
1.50 to 1.0

Second Fiscal Quarter of 2001
2.00 to 1.0

; provided that for purposes of calculating the Interest

Coverage Ratio under this Section 9.2.4(b), EBITDA shall

exclude the effect of any non-cash charges, up to an aggregate amount of \$50,000,000, in respect of the Micromill project, including (without limitation) any write-down of assets located at the Center for Technology in Pleasanton, California, and at the Micromill facility near Reno, Nevada."

B. Section 9.2.22 of the Credit Agreement is hereby amended by deleting the phrase "\$300,000" contained therein and substituting the phrase "\$550,000" therefor.

Section 2. Conditions to Effectiveness.

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

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

B. The Agent shall have received:

(1) Resolutions of the Board of Directors or of the Executive Committee of the Board of Directors of the Company and the Parent Guarantor

approving and authorizing the execution, delivery and performance of this Amendment, certified by their respective corporate secretaries or assistant secretaries as being in full force and effect without modification or amendment as of the date of execution hereof by the Company or the Parent Guarantor, as the case may be;

(2) A signature and incumbency certificate of the officers of the Company and the Parent Guarantor executing this Amendment;

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

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

Section 3. Company's Representations and Warranties.

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

A. **Authorization of Agreements.** The execution and delivery of this Amendment by the Company and the Parent Guarantor and the performance of the Credit Agreement as amended by this Amendment (the "Amended Agreement") by the Company and the Parent Guarantor are within such Obligor's corporate powers and have been duly authorized by all necessary corporate action on the part of the Company and the Parent Guarantor, as the case may be.

B. **No Conflict.** The execution and delivery by the Company and the Parent Guarantor of this Amendment and the performance by the Company and the Parent Guarantor of the Amended Agreement do not:

(1) contravene such Obligor's Organic Documents;

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

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

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

D. **Governmental Approval, Regulation, etc.** No authorization or approval or other action by, and no notice to or filing with, any governmental authority or regulatory body or any other Person is required for the due execution, delivery or performance of this Amendment by the Company or the Parent Guarantor.

E. Incorporation of Representations and Warranties

from Credit Agreement. Each of the statements set forth in Section 7.2.1 of the Credit Agreement is true and correct.

Section 4. Acknowledgement and Consent.

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

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

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

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

Section 5. Miscellaneous.

A. Reference to and Effect on the Credit Agreement and the Other Loan Documents.

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

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

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

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

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

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

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

KAISER ALUMINUM CORPORATION	KAISER ALUMINUM & CHEMICAL CORPORATION
By: /s/Karen A. Twitchell	By: /s/Karen A. Twitchell
Name Printed: Karen A. Twitchell	Name Printed: Karen A. Twitchell
Its: Treasurer	Its: Treasurer
BANKAMERICA BUSINESS CREDIT, INC., as Agent	BANKAMERICA BUSINESS CREDIT, INC.
By: /s/Michael J. Jasaitis	By: /s/Michael J. Jasaitis
Name: Michael J. Jasaitis	Name: Michael J. Jasaitis
Its: Vice President	Its: Vice President
BANK OF AMERICA NATIONAL TRUST AND SAVINGS ASSOCIATION	THE CIT GROUP/BUSINESS CREDIT, INC.
By: /s/Michael Balok	By: /s/Dan Hughes
Name Printed: Michael Balok	Name Printed: Dan Hughes
Its: Managing Director	Its: Vice President
CONGRESS FINANCIAL CORPORATION (WESTERN)	HELLER FINANCIAL, INC.
By: /s/Kristine Metchikian	By: /s/T/ Bukowski
Name Printed: Kristine Metchikian	Name Printed: T. Bukowski
Its: Vice President	Its: Sr. Vice President
LA SALLE NATIONAL BANK CREDIT	TRANSAMERICA BUSINESS CORPORATION
By: /s/ Douglas C. Colletti	By: /s/ R. L. Heinz
Name Printed: Douglas C. Colletti	Name Printed: R. L. Heinz
Its: First Vice President	Its: Senior Vice President
ABN AMRO BANK N.V. San Francisco International Branch	
By: ABN AMRO North America, Inc., as agent	
By: /s/Jeffrey A. French	

Name Printed: Jeffrey A. French
Its: Group Vice President & Director

By: /s/ Michael M. Tolentino
Name Printed: Michael M. Tolentino
Its: Vice President

ACKNOWLEDGED AND AGREED TO:

AKRON HOLDING CORPORATION	KAISER ALUMINUM & CHEMICAL INVESTMENT, INC.
By: /s/Karen A. Twitchell	By: /s/Karen A. Twitchell
Name Printed: Karen A. Twitchell	Name Printed: Karen A. Twitchell
Its: Treasurer	Its: Treasurer
KAISER ALUMINUM PROPERTIES, INC.	KAISER ALUMINUM TECHNICAL SERVICES, INC.
By: /s/Karen A. Twitchell	By: /s/Karen A. Twitchell
Name Printed: Karen A. Twitchell	Name Printed: Karen A. Twitchell
Its: Treasurer	Its: Treasurer
OXNARD FORGE DIE COMPANY, INC.	KAISER ALUMINIUM INTERNATIONAL, INC.
By: /s/Karen A. Twitchell	By: /s/Karen A. Twitchell
Name Printed: Karen A. Twitchell	Name Printed: Karen A. Twitchell
Its: Treasurer	Its: Treasurer
KAISER ALUMINA AUSTRALIA CORPORATION	KAISER FINANCE CORPORATION
By: /s/Karen A. Twitchell	By: /s/Karen A. Twitchell
Name Printed: Karen A. Twitchell	Name Printed: Karen A. Twitchell
Its: Treasurer	Its: Treasurer

ALPART JAMAICA INC.

By:/s/Karen A. Twitchell
Name Printed: Karen A. Twitchell

Its: Treasurer

KAISER BAUXITE COMPANY

By:/s/Karen A. Twitchell
Name Printed: Karen A. Twitchell

Its: Treasurer

KAISER MICROMILL HOLDINGS, LLC

By:/s/Karen A. Twitchell
Name Printed: Karen A. Twitchell

Its: Treasurer

KAISER TEXAS SIERRA MICROMILLS,
LLC

By:/s/Karen A. Twitchell
Name Printed: Karen A. Twitchell

Its: Treasurer

KAISER BELLWOOD CORPORATION

By:/s/Karen A. Twitchell
Name Printed: Karen A. Twitchell
Its: Treasurer

KAISER JAMAICA
CORPORATION

By:/s/Karen A. Twitchell
Name Printed: Karen A.

Twitchell

Its: Treasurer

KAISER EXPORT COMPANY

By:/s/Karen A. Twitchell
Name Printed: Karen A.

Twitchell

Its: Treasurer

KAISER SIERRA
MICROMILLS, LLC

By:/s/Karen A. Twitchell
Name Printed: Karen A.

Twitchell

Its: Treasurer

KAISER TEXAS MICROMILL
HOLDINGS, LLC

By:/s/Karen A. Twitchell
Name Printed: Karen A.

Twitchell

Its: Treasurer

EXECUTION COPY

FIFTEENTH AMENDMENT TO CREDIT AGREEMENT

THIS FIFTEENTH AMENDMENT TO CREDIT AGREEMENT (this

"Amendment"), dated as of February 23, 1999, is by and between KAISER ALUMINUM & CHEMICAL CORPORATION, a Delaware corporation (the "Company"), KAISER ALUMINUM CORPORATION, a Delaware corporation (the "Parent Guarantor"), the various financial institutions that are or may from time to time become parties to the Credit Agreement referred to below (collectively, the "Lenders" and, individually, a "Lender"), and BANKAMERICA BUSINESS CREDIT, INC., a Delaware corporation, as agent (in such capacity, together with its successors and assigns in such capacity, the "Agent") for the Lenders. Capitalized terms used, but not defined, herein shall have the meanings given to such terms in the Credit Agreement, as amended hereby.

WITNESSETH:

WHEREAS, the Company, the Parent Guarantor, the Lenders and the Agent are parties to the Credit Agreement, dated as of February 15, 1994, as amended by the First Amendment to Credit Agreement, dated as of July 21, 1994, the Second Amendment to Credit Agreement, dated as of March 10, 1995, the Third Amendment to Credit Agreement and Acknowledgement, dated as of July 20, 1995, the Fourth Amendment to Credit Agreement, dated as of October 17, 1995, the Fifth Amendment to Credit Agreement, dated as of December 11, 1995, the Sixth Amendment to Credit Agreement, dated as of October 1, 1996, the Seventh Amendment to Credit Agreement, dated as of December 17, 1996, the Eighth Amendment to Credit Agreement, dated as of February 24, 1997, the Ninth Amendment to Credit Agreement and Acknowledgment, dated as of April 21, 1997, the Tenth Amendment to Credit Agreement and Assignment, dated as of June 25, 1997, the Eleventh Amendment to Credit Agreement and Limited Waivers, dated as of October 20, 1997, the Twelfth Amendment to Credit Agreement, dated as of January 13, 1998, the Thirteenth Amendment to Credit Agreement, dated as of July 20, 1998, and the Fourteenth Amendment to Credit Agreement, dated as of December 11, 1998 (the "Credit

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

NOW, THEREFORE, the parties hereto agree as follows:

Section 1. Amendments to Credit Agreement.

1.1 Amendments to Article I: Definitions.

Section 1.1 of the Credit Agreement is hereby amended by adding the following definitions in the appropriate alphabetical order:

"'KLHP' means Kaiser LaRoche Hydrate Partners, a

Delaware partnership."

"'Kaiser Transaction' means Kaiser Transaction Corp., a Delaware corporation."

1.2 Amendments to Article IX: Covenants.

A. Section 9.2.2(b)(i) of the Credit Agreement is hereby amended by adding the phrase ", Kaiser Transaction" after the phrase "Texas Sierra" contained therein.

B. Section 9.2.4(b) of the Credit Agreement is hereby

amended to read in its entirety as follows:

"(b) Interest Coverage Ratio. The Company shall not permit the Interest Coverage Ratio (i) for the one Fiscal Quarter period ending March 31, 1996 to be less than 1.1 to 1.0, (ii) for the two Fiscal Quarter period ending June 30, 1996 to be less than 1.2 to 1.0, (iii) for the three Fiscal Quarter period ending September 30, 1996 to be less than 0.5 to 1.0, (iv) for the four Fiscal Quarter period ending December 31, 1996 to be less than 0.3 to 1.0, (v) for the one Fiscal Quarter period ending June 30, 1997 to be less than 0.2 to 1.0, (vi) for the two Fiscal Quarter period ending September 30, 1997 to be less than 0.4 to 1.0, (vii) for the three Fiscal Quarter period ending December 31, 1997 to be less than 0.6 to 1.0 and (viii) for the four Fiscal Quarter period ending on the last day of each of the Fiscal Quarters set forth below to be less than the correlative ratio indicated:

Date

Ratio

First Fiscal Quarter of 1998
0.80 to 1.0

Second Fiscal Quarter of 1998
1.20 to 1.0

Third Fiscal Quarter of 1998
1.60 to 1.0

Fourth Fiscal Quarter of 1998
1.10 to 1.0

First Fiscal Quarter of 1999
0.90 to 1.0

Second Fiscal Quarter of 1999
0.75 to 1.0

Third Fiscal Quarter of 1999
0.75 to 1.0

Fourth Fiscal Quarter of 1999
1.00 to 1.0

First Fiscal Quarter of 2000
1.00 to 1.0

Second Fiscal Quarter of 2000
1.25 to 1.0

Third Fiscal Quarter of 2000
1.25 to 1.0

Fourth Fiscal Quarter of 2000
1.50 to 1.0

First Fiscal Quarter of 2001
1.50 to 1.0

Second Fiscal Quarter of 2001
2.00 to 1.0

; provided that for purposes of calculating the Interest

Coverage Ratio under this Section 9.2.4(b), (x) EBITDA shall

exclude the effect of any non-cash charges, up to an aggregate amount of \$50,000,000, in respect of the Micromill project, including (without limitation) any write-down of assets located at the Center for Technology in Pleasanton, California, and at the Micromill facility near Reno, Nevada, and (y) for purposes of calculating Adjusted Capital Expenditures, Capital Expenditures shall exclude the purchase price paid by Kaiser Transaction to acquire the 45% interest in KLHP owned by LaRoche Industries Inc."

C. Section 9.2.5 of the Credit Agreement is hereby amended by (i) adding the phrase ", Kaiser Transaction, KLHP" after the phrase "KJBC" contained in clause (f) thereof; (ii) deleting the word "and" at the end of clause (t) thereof; (iii) deleting the period at the end of clause (u) thereof and substituting "; and" therefor; and (iv) adding the following as new clause (v)

thereof:

"(v) Investments by the Company in Kaiser Transaction in an amount not to exceed, in the aggregate at any one time outstanding, the lesser of (i) the purchase price paid by Kaiser Transaction to acquire the 45% interest in KLHP owned by LaRoche Industries Inc. and (ii) \$12,000,000; and Investments by Kaiser Transaction in KLHP in an amount not to exceed, in the aggregate at any one time outstanding, the lesser of (x) the purchase price paid by Kaiser Transaction to acquire the 45% interest in KLHP owned by LaRoche Industries Inc. and (y) \$12,000,000."

D. Section 9.2.11 of the Credit Agreement is hereby amended by (i) deleting the word "and" at the end of clause (l) thereof; (ii) deleting the period at the end of clause (m) thereof and substituting "; and" therefor; and (iii) adding the following as new clause (n) thereof:

"(n) a sale by the Company of its partnership interests and membership interests in AKW and AKW LLC, respectively, to Accuride Corporation or an affiliate thereof for an aggregate cash purchase price equal to or greater than \$60,000,000."

E. Section 9.2.13(c) of the Credit Agreement is hereby amended by adding ", Kaiser Transaction" after the phrase "KFC" in the parenthetical contained therein.

F. Section 9.2.18 of the Credit Agreement is hereby

amended by amending clause (vi) thereof to read in its entirety as follows:

"(vi) Investments permitted by Sections 9.2.5(f), 9.2.5(n), 9.2.5(o), 9.2.5(q), 9.2.5(r), 9.2.5(s), 9.2.5(t), 9.2.5(u), and 9.2.5(v);"

Section 2. Acknowledgement and Consent.

Subject to the terms and conditions set forth herein and in reliance on the representations and warranties of the Company herein contained, the Lenders hereby acknowledge and consent to (i) the amendment of the lease entered into by the Company and AKW with respect to a portion of the property owned by the Company located in Erie, Pennsylvania to the extent necessary to (x) change the rental rate for the first five-year renewal of such lease from fair market rental value to \$1.00 per year in connection with the sale by the Company of its partnership interests and membership interests in AKW and AKW LLC, respectively, to Accuride Corporation or an affiliate thereof and (y) include under such lease that portion of the improved property located at the Erie, Pennsylvania site that is not currently subject to such lease, and (ii) the execution and delivery of a supplement to the Senior Indenture, a supplement to the New Senior Indenture, a supplement to the Additional New Senior Indentures and a supplement to the Subordinated Indenture in form and substance satisfactory to the Agent in its sole and absolute discretion, for the purpose of adding Kaiser Transaction as a "Subsidiary Guarantor" (under and as defined in the Senior Indenture, New Senior Indenture, Additional New Senior Indentures and Subordinated Indenture).

Section 3. Supplements to Collateral Documents.

The parties hereto hereby agree that, as of the Fifteenth Amendment Effective Date, (i) the Subsidiary Security Agreement shall be supplemented as set forth in Exhibit A hereto, (ii) the Subsidiary Guaranty shall be supplemented as set forth in Exhibit B hereto, and (iii) the Subsidiary Pledge Agreement shall be supplemented as set forth in Exhibit C hereto. The Required Lenders hereby approve the forms of such supplements, and hereby authorize the Agent on their behalf to accept from Kaiser Transaction and to execute and deliver as Agent such supplements in substantially the forms of such Exhibits A, B and C with such changes, additions or deletions as the Agent, in its sole and absolute discretion, may approve.

Section 4. Conditions to Effectiveness.

This Amendment shall become effective as of December 31, 1998 only when, except as set forth in Sections 4B(10), (11) and (12) below, the following conditions shall have been satisfied and notice thereof shall have been given by the Agent to the Parent Guarantor, the Company and each Lender (the date of satisfaction of such conditions and the giving of such notice being referred to herein as the "Fifteenth Amendment Effective Date"):

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

B. The Agent shall have received:

(1) Resolutions of the Board of Directors or of the Executive Committee of the Board of Directors of the Company and the Parent Guarantor approving and authorizing the execution, delivery and performance of this Amendment, and, as to the Company, a Pledge Amendment to the Company Pledge Agreement, dated as of February 23, 1999, with respect to the stock of Kaiser Transaction (the "Pledge Amendment"), certified by their respective corporate secretaries or assistant secretaries as being in full force and effect without modification or amendment as of the date of execution hereof by the Company or the Parent Guarantor, as the case may be;

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

(3) Copies of the Supplement to Subsidiary Security Agreement, dated as of February 23, 1999, by and between Kaiser Transaction and the Agent (the "Subsidiary Security Supplement") duly executed on behalf of Kaiser Transaction and the Agent;

(4) Copies of the Supplement to Subsidiary Guaranty, dated as of February 23, 1999, by and between Kaiser Transaction and the Agent (the "Subsidiary Guaranty Supplement") duly executed on behalf of Kaiser Transaction and the Agent;

(5) Copies of the Supplement to Subsidiary Pledge Agreement, dated as of February 23, 1999, by and between Kaiser Transaction and the Agent (the "Subsidiary Pledge Supplement") duly executed on behalf of Kaiser Transaction and the Agent;

(6) Certified copies of the Certificate of Incorporation of Kaiser Transaction;

(7) Copies of the Bylaws of Kaiser Transaction, certified as of the date of delivery to the Agent by its corporate secretary or an assistant secretary or other authorized representative;

(8) Resolutions of the Board of Directors of Kaiser Transaction approving and authorizing the execution, delivery and performance of the Subsidiary Security Supplement, the Subsidiary Guaranty Supplement and the Subsidiary Pledge Supplement, certified by its corporate secretary or an assistant secretary as being in full force and effect without modification or amendment as of the date of execution thereof by Kaiser Transaction;

(9) A signature and incumbency certificate of the officers of Kaiser Transaction executing the Subsidiary Security Supplement, the Subsidiary Guaranty Supplement and the Subsidiary Pledge Supplement;

(10) Duly executed financing statements (Form UCC-1) naming Kaiser Transaction as the debtor and the Agent as the secured party, or other similar instruments or documents, suitable for filing under the Uniform Commercial Code of all jurisdictions as may be necessary or, in the reasonable opinion of the Agent, desirable to perfect the security interest of the Agent in the Collateral granted pursuant to the Subsidiary Security Agreement to the extent that perfection may be accomplished by filing under the Uniform Commercial Code in any state in the United States or the District of Columbia (which financing statements may be received by the Agent no later than five Business Days after the Fifteenth Amendment Effective Date);

(11) Stock certificates evidencing 100% of the issued and outstanding shares of capital stock of Kaiser Transaction, accompanied by undated stock powers duly executed in blank (which stock certificates may be received by the Agent no later than five Business Days after the Fifteenth Amendment Effective Date);

(12) Copies of the Pledge Amendment duly executed on behalf of the Company (which Pledge Amendment may be received by the Agent no later than five Business Days after the Fifteenth Amendment Effective Date);

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

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

Section 5. Company's Representations and Warranties.

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

A. Authorization of Agreements. The execution and delivery of this Amendment by the Company and the Parent Guarantor and the performance of the Credit Agreement as amended by this Amendment (the "Amended Agreement") by the Company and the Parent Guarantor are within such Obligor's corporate powers and have been duly authorized by all necessary corporate action on the part of the Company and the Parent Guarantor, as the case may be.

B. No Conflict. The execution and delivery by the Company and the Parent Guarantor of this Amendment and the performance by the Company and the Parent Guarantor of the Amended Agreement do not:

(1) contravene such Obligor's Organic Documents;

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

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

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

D. Governmental Approval, Regulation, etc. No authorization or approval or other action by, and no notice to or filing with, any governmental authority or regulatory body or any other Person is required for the due execution, delivery or performance of this Amendment by the Company or the Parent Guarantor.

E. Incorporation of Representations and Warranties from

Credit Agreement. Each of the statements set forth in Section 7.2.1 of the Credit Agreement is true and correct.

Section 6. Acknowledgement and Consent.

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

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

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

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

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

Section 7. Miscellaneous.

A. Reference to and Effect on the Credit Agreement and the Other Loan Documents.

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

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

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

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

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

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

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

KAISER ALUMINUM CORPORATION

By: /s/ Karen A. Twitchell

Name Printed: Karen A. Twitchell

Its: Treasurer

KAISER ALUMINUM &

CHEMICAL CORPORATION

By: /s/ Karen A. Twitchell

Name Printed: Karen A.

Twitchell

Its: Treasurer

BANKAMERICA BUSINESS CREDIT,
CREDIT, INC.
By:/s/Michael J. Jasaitis
Name Printed: Michael J. Jasaitis
Its: Vice President

BANKAMERICA BUSINESS
INC., as Agent
By:/s/Michael J. Jasaitis
Name Printed: Michael J.
Jasaitis
Its: Vice President

BANK OF AMERICA NATIONAL TRUST
AND SAVINGS ASSOCIATION

By:/s/Michael Balor
Name Printed: Michael Balor
Its: Managing Director

THE CIT GROUP/BUSINESS
CREDIT, INC.

By:/s/Dan Hughes
Name Printed: Dan Hughes
Its: Vice President

CONGRESS FINANCIAL CORPORATION
(WESTERN)
By:/s/Kristine Metchikian
Name Printed: Kristine Metchikian
Its: Vice President

HELLER FINANCIAL, INC.
By:/s/T. Bukowski
Name Printed: T. Bukowski
Its: Sr. Vice President

LA SALLE NATIONAL BANK

TRANSAMERICA BUSINESS

ACKNOWLEDGED AND AGREED TO:

AKRON HOLDING CORPORATION	KAISER ALUMINUM & CHEMICAL INVESTMENT, INC.
By:/s/Karen A. Twitchell Name Printed: Karen A. Twitchell	By:/s/Karen A. Twitchell Name Printed: Karen A. Twitchell
Its: Treasurer	Its: Treasurer
KAISER ALUMINUM PROPERTIES, INC.	KAISER ALUMINUM TECHNICAL SERVICES, INC.
By:/s/Karen A. Twitchell Name Printed: Karen A. Twitchell	By:/s/Karen A. Twitchell Name Printed: Karen A. Twitchell
Its: Treasurer	Its: Treasurer
OXNARD FORGE DIE COMPANY, INC.	KAISER ALUMINIUM INTERNATIONAL, INC.
By:/s/Karen A. Twitchell Name Printed: Karen A. Twitchell	By:/s/Karen A. Twitchell Name Printed: Karen A. Twitchell
Its: Treasurer	Its: Treasurer
KAISER ALUMINA AUSTRALIA CORPORATION	KAISER FINANCE CORPORATION
By:/s/Karen A. Twitchell Name Printed: Karen A. Twitchell	By:/s/Karen A. Twitchell Name Printed: Karen A. Twitchell
Its: Treasurer	Its: Treasurer
ALPART JAMAICA INC.	KAISER JAMAICA CORPORATION
By:/s/Karen A. Twitchell Name Printed: Karen A. Twitchell	By:/s/Karen A. Twitchell Name Printed: Karen A. Twitchell
Its: Treasurer	Its: Treasurer
KAISER BAUXITE COMPANY	KAISER EXPORT COMPANY
By:/s/Karen A. Twitchell Name Printed: Karen A. Twitchell	By:/s/Karen A. Twitchell Name Printed: Karen A. Twitchell
Its: Treasurer	Its: Treasurer
KAISER MICROMILL HOLDINGS, LLC	KAISER SIERRA MICROMILLS, LLC
By:/s/Karen A. Twitchell Name Printed: Karen A. Twitchell	By:/s/Karen A. Twitchell Name Printed: Karen A. Twitchell
Its: Treasurer	Its: Treasurer
KAISER TEXAS SIERRA MICROMILLS, LLC	KAISER TEXAS MICROMILL HOLDINGS, LLC
By:/s/Karen A. Twitchell Name Printed: Karen A. Twitchell	By:/s/Karen A. Twitchell Name Printed: Karen A. Twitchell
Its: Treasurer	Its: Treasurer

KAISER BELLWOOD CORPORATION

By:/s/Karen A. Twitchell
Name Printed: Karen A. Twitchell
Its: Treasurer

EXHIBIT A

SUPPLEMENT TO SUBSIDIARY SECURITY AGREEMENT

THIS SUPPLEMENT TO SUBSIDIARY SECURITY AGREEMENT (this

"Supplement"), dated as of February 23, 1999, is by and between Kaiser Transaction Corp., a Delaware corporation (the "New Kaiser Subsidiary"), and BankAmerica Business Credit, Inc., a Delaware corporation, as agent for the Secured Lenders (as defined in the Credit Agreement referred to below) (in such capacity, together with its successors and assigns in such capacity, the "Agent"). Capitalized terms used, but not defined, herein shall have the meanings given to such terms in the Credit Agreement, as amended by the Fifteenth Amendment (as defined below).

WITNESSETH:

WHEREAS, Kaiser Aluminum & Chemical Corporation, a Delaware corporation (the "Company"), Kaiser Aluminum Corporation, a Delaware corporation (the "Parent Guarantor"), the various financial institutions that are or may from time to time become parties to the Credit Agreement (collectively, the "Lenders" and, individually, a "Lender"), and the Agent are parties to the Credit Agreement, dated as of February 15, 1994, as amended by the First Amendment to Credit Agreement, dated as of July 21, 1994, the Second Amendment to Credit Agreement, dated as of March 10, 1995, the Third Amendment to Credit Agreement and Acknowledgment, dated as of July 20, 1995, the Fourth Amendment to Credit Agreement, dated as of October 17, 1995, the Fifth Amendment to Credit Agreement, dated as of December 11, 1995, the Sixth Amendment to Credit Agreement, dated as of October 1, 1996, the Seventh Amendment to Credit Agreement, dated as of December 17, 1996, the Eighth Amendment to Credit Agreement, dated as of February 24, 1997, the Ninth Amendment to Credit Agreement, dated as of April 21, 1997, the Tenth Amendment to Credit Agreement and Assignment, dated as of June 25, 1997, the Eleventh Amendment to Credit Agreement and Limited Waivers, dated as of October 20, 1997, the Twelfth Amendment to Credit Agreement, dated as of January 13, 1998, the Thirteenth Amendment to Credit Agreement, dated as of July 20, 1998, and the Fourteenth Amendment to Credit Agreement, dated as of December 11, 1998 (the "Credit Agreement"); and

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

WHEREAS, the New Kaiser Subsidiary is required as a condition to the effectiveness of the Fifteenth Amendment to execute this Supplement; and

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

NOW, THEREFORE, the parties hereto agree as follows:

Section 1. Addition of New Kaiser Subsidiary.

On and after the Fifteenth Amendment Effective Date (as

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

Section 2. Kaiser Subsidiary's Representations and **Warranties.**

In order to induce the Agent to enter into this Supplement and to supplement the Subsidiary Security Agreement in the manner provided herein, and to induce the Required Lenders to consent to such action by the Agent, the New Kaiser Subsidiary represents and warrants as a Kaiser Subsidiary to each Lender and the Agent that, as of the Fifteenth Amendment Effective Date after giving effect to the effectiveness of this Supplement, the following statements are true and correct in all material respects:

A. Authorization of Agreements. The execution and

delivery of this Supplement by such Kaiser Subsidiary and the performance of the Subsidiary Security Agreement as supplemented by this Supplement (the "Supplemented Agreement") by such Kaiser Subsidiary are within such Kaiser Subsidiary's corporate powers and have been duly authorized by all necessary corporate action on the part of such Kaiser Subsidiary.

B. No Conflict. The execution and delivery by such Kaiser Subsidiary of this Supplement and the performance by such Kaiser Subsidiary of the Supplemented Agreement do not:

(1) contravene such Kaiser Subsidiary's Organic Documents;

(2) contravene the Senior Indenture, the New Senior Indenture, the Additional New Senior Indentures or the Subordinated Indenture or

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

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

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

D. Governmental Approval, Regulation, etc. No authorization or approval or other action by, and no notice to or filing with, any governmental authority or regulatory body or other Person is required for the due execution, delivery or performance of this Supplement by such Kaiser Subsidiary, other than the filing of appropriate financing statements.

Section 4. Miscellaneous.

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

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

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

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

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

*BANKAMERICA BUSINESS CREDIT,
INC., as Agent*

*By:/s/Michael J. Jasaitis
Name: Michael J. Jasaitis
Its: Vice President*

KAISER TRANSACTION CORP.

*By:/s/Karen A. Twitchell
Name: Karen A. Twitchell
Its: Treasurer*

ACKNOWLEDGED AND AGREED TO:

AKRON HOLDING CORPORATION

*By:/s/Karen A. Twitchell
Name Printed: Karen A. Twitchell
Its: Treasurer*

*KAISER ALUMINUM & CHEMICAL
INVESTMENT, INC.*

*By:/s/Karen A. Twitchell
Name Printed: Karen A.
Twitchell
Its: Treasurer*

*KAISER ALUMINUM PROPERTIES,
INC.*

*By:/s/Karen A. Twitchell
Name Printed: Karen A. Twitchell
Its: Treasurer*

*KAISER ALUMINUM TECHNICAL
SERVICES, INC.*

*By:/s/Karen A. Twitchell
Name Printed: Karen A.
Twitchell
Its: Treasurer*

OXNARD FORGE DIE COMPANY, INC.

*By:/s/Karen A. Twitchell
Name Printed: Karen A. Twitchell
Its: Treasurer*

*KAISER ALUMINIUM
INTERNATIONAL, INC.*

*By:/s/Karen A. Twitchell
Name Printed: Karen A.
Twitchell
Its: Treasurer*

KAISER ALUMINA AUSTRALIA

KAISER FINANCE CORPORATION

CORPORATION

By:/s/Karen A. Twitchell
Name Printed: Karen A. Twitchell
Its: Treasurer

By:/s/Karen A. Twitchell
Name Printed: Karen A.
Twitchell
Its: Treasurer

KAISER MICROMILL HOLDINGS, LLC

By:/s/Karen A. Twitchell
Name Printed: Karen A. Twitchell
Its: Treasurer

KAISER SIERRA MICROMILLS, LLC

By:/s/Karen A. Twitchell
Name Printed: Karen A.
Twitchell
Its: Treasurer

KAISER TEXAS SIERRA MICROMILLS,
LLC

By:/s/Karen A. Twitchell
Name Printed: Karen A. Twitchell
Its: Treasurer

KAISER TEXAS MICROMILL
HOLDINGS, LLC

By:/s/Karen A. Twitchell
Name Printed: Karen A.
Twitchell
Its: Treasurer

KAISER BELLWOOD CORPORATION

By:/s/Karen A. Twitchell
Name Printed: Karen A. Twitchell
Its: Treasurer

Supplement to the Subsidiary Security Agreement

Schedule I

U.S. Trademarks, Trade Names and Service Marks As of the Fifteenth Amendment Effective Date, there are no Trademarks registered in the name of the New Kaiser Subsidiary in the United States Patent and Trademark Office.

Supplement to the Subsidiary Security Agreement

Schedule II
U.S. Patents

As of the Fifteenth Amendment Effective Date, there are no Patents registered in the name of the New Kaiser Subsidiary in the United States Patent and Trademark Office.

Supplement to the Subsidiary Security Agreement

Schedule III

Location of Collateral

The chief place of business and the chief executive office of the New Kaiser Subsidiary as of the Fifteenth Amendment Effective Date is, and for the four-month period immediately preceding such date (or such shorter time as such New Kaiser Subsidiary has been organized) has been, located at 6177 Sunol Boulevard, Pleasanton, California 94566-7769 or 5847 San Felipe, Suite 2600, Houston, Texas 77057-3010.

As of the Fifteenth Amendment Effective Date, all of the current books and records located in the United States of the New Kaiser Subsidiary, including its records regarding any Accounts and contracts relating to any Accounts and all originals, if any, of Chattel Paper and Documents (including all Documents covering any Goods of such New Kaiser Subsidiary), and all of the New Kaiser Subsidiary's other books and records, contracts, Chattel Paper, Equipment, Documents, Inventory, and other Goods located in the United States (excluding such books and records, Documents, Equipment, contracts, Chattel Paper, Inventory, or other Goods which are in transit or which are otherwise temporarily off such premises in the ordinary course of such New Kaiser Subsidiary's business) are located at:

**6177 SUNOL BOULEVARD
PLEASANTON, CALIFORNIA 94566-7769
(ALAMEDA COUNTY)**

**5847 SAN FELIPE
SUITE 2600
HOUSTON, TEXAS 77057-3010
(HARRIS COUNTY)**

Supplement to the Subsidiary Security Agreement

Schedule IV

Third Party Locations of Collateral

As of the Fifteenth Amendment Effective Date, Collateral of the New Kaiser Subsidiary may be located at the following third party locations:

None

Supplement to the Subsidiary Security Agreement

Schedule V
Deposit and Cash Equivalent Investment Accounts

As of the Fifteenth Amendment Effective Date, the New Kaiser Subsidiary has no deposit accounts or accounts for holding Cash Equivalent Investments in the United States.

Supplement to the Subsidiary Security Agreement

Schedule VI

List of Trade Names and Fictitious Business Names

No additional information.

List of Filing Offices

State -----	Office -----
California	Secretary of State
Texas	Secretary of State

EXHIBIT B

SUPPLEMENT TO SUBSIDIARY GUARANTY

THIS SUPPLEMENT TO SUBSIDIARY GUARANTY (this "Supplement"),

dated as of February 23, 1999, is by and between Kaiser Transaction Corp., a Delaware corporation (the "New Kaiser Subsidiary"), and BankAmerica Business Credit, Inc., a Delaware corporation, as agent for the Secured Lenders (as defined in the Credit Agreement referred to below) (in such capacity, together with its successors and assigns in such capacity, the "Agent"). Capitalized terms used, but not defined, herein shall have the meanings given to such terms in the Credit Agreement, as amended by the Fifteenth Amendment (as defined below).

WITNESSETH:

WHEREAS, Kaiser Aluminum & Chemical Corporation, a Delaware corporation (the "Company"), Kaiser Aluminum Corporation, a Delaware corporation (the "Parent Guarantor"), the various financial institutions that are or may from time to time become parties to the Credit Agreement (collectively, the "Lenders" and, individually, a "Lender"), and the Agent are parties to the Credit Agreement, dated as of February 15, 1994, as amended by the First Amendment to Credit Agreement, dated as of July 21, 1994, the Second Amendment to Credit Agreement, dated as of March 10, 1995, the Third Amendment to Credit Agreement and Acknowledgment, dated as of July 20, 1995, the Fourth Amendment to Credit Agreement, dated as of October 17, 1995, the Fifth Amendment to Credit Agreement, dated as of December 11, 1995, the Sixth Amendment to Credit Agreement, dated as of October 1, 1996, the Seventh Amendment to Credit Agreement, dated as of December 17, 1996, the Eighth Amendment to Credit Agreement, dated as of February 24, 1997, the Ninth Amendment to Credit Agreement, dated as of April 21, 1997, the Tenth Amendment to Credit Agreement and Assignment, dated as of June 25, 1997, the Eleventh Amendment to Credit Agreement and Limited Waivers, dated as of October 20, 1997, the Twelfth Amendment to Credit Agreement, dated as of January 13, 1998, the Thirteenth Amendment to Credit Agreement, dated as of July 20, 1998, and the Fourteenth Amendment to Credit Agreement, dated as of December 11, 1998; and

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

WHEREAS, the New Kaiser Subsidiary is required as a condition to the effectiveness of the Fifteenth Amendment to execute this Supplement; and

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

NOW, THEREFORE, the parties hereto agree as follows:

Section 1. Addition of New Kaiser Subsidiary.

On and after the Fifteenth Amendment Effective Date (as defined in the Fifteenth Amendment), the New Kaiser Subsidiary shall be party to the Subsidiary Guaranty and the terms "Guarantor" and "Guarantors" (as used in the Subsidiary Guaranty) shall include and also be a reference to the New Kaiser Subsidiary.

Section 2. Guarantors' Representations and Warranties.

In order to induce the Agent to enter into this Supplement and to supplement the Subsidiary Guaranty in the manner provided herein, and to induce the Required Lenders to consent to such action by the Agent, the New Kaiser Subsidiary represents and warrants as a Guarantor to each Lender and the Agent that, as of the Fifteenth Amendment Effective Date after giving effect to the effectiveness of this Supplement, the following statements are true and correct in all material respects:

A. Authorization of Agreements. The execution and delivery of this Supplement by such Guarantor and the performance of the Subsidiary Guaranty as supplemented by this Supplement (the "Supplemented Agreement") by such Guarantor are within such Guarantor's corporate powers and have been duly authorized by all necessary corporate action on the part of such Guarantor.

B. No Conflict. The execution and delivery by such Guarantor of this Supplement and the performance by such Guarantor of the Supplemented Agreement do not:

(1) contravene such Guarantor's Organic Documents;

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

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

C. Binding Obligation. This Supplement has been duly executed and delivered by such Guarantor and this Supplement and the Supplemented Agreement constitute the legal, valid and binding obligations of such Guarantor, enforceable against such Guarantor in accordance with their respective terms, except as may be limited by bankruptcy, insolvency, reorganization, moratorium or similar laws relating to or limiting creditors' rights generally and by general principles of equity.

D. Governmental Approval, Regulation, etc. No authorization or approval or other action by, and no notice to or filing with, any governmental authority or regulatory body or other Person is required for the due execution, delivery or performance of this Supplement by such Guarantor.

Section 3. Miscellaneous.

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

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

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

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

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

*BANKAMERICA BUSINESS CREDIT,
INC., as Agent
By:/s/Michael J. Jasaitis
Name: Michael J. Jasaitis
Its: Vice President*

*KAISER TRANSACTION CORP.

By:/s/Karen A. Twitchell
Name: Karen A. Twitchell
Its: Treasurer*

*ACKNOWLEDGED AND AGREED TO:
AKRON HOLDING CORPORATION

By:/s/Karen A. Twitchell
Name Printed: Karen A. Twitchell

Its: Treasurer*

*KAISER ALUMINUM &
CHEMICAL INVESTMENT, INC.
By:/s/Karen A. Twitchell
Name Printed: Karen A.
Twitchell
Its: Treasurer*

*KAISER ALUMINUM PROPERTIES,
INC.
By:/s/Karen A. Twitchell
Name Printed: Karen A. Twitchell

Its: Treasurer*

*KAISER ALUMINUM TECHNICAL
SERVICES, INC.
By:/s/Karen A. Twitchell
Name Printed: Karen A.
Twitchell
Its: Treasurer*

*OXNARD FORGE DIE COMPANY, INC.

By:/s/Karen A. Twitchell
Name Printed: Karen A. Twitchell

Its: Treasurer*

*KAISER ALUMINIUM
INTERNATIONAL, INC.
By:/s/Karen A. Twitchell
Name Printed: Karen A.
Twitchell
Its: Treasurer*

*KAISER ALUMINA AUSTRALIA
CORPORATION
By:/s/Karen A. Twitchell
Name Printed: Karen A. Twitchell

Its: Treasurer*

*KAISER FINANCE
CORPORATION
By:/s/Karen A. Twitchell
Name Printed: Karen A.
Twitchell
Its: Treasurer*

*ALPART JAMAICA INC.

By:/s/Karen A. Twitchell
Name Printed: Karen A. Twitchell

Its: Treasurer*

*KAISER JAMAICA
CORPORATION
By:/s/Karen A. Twitchell
Name Printed: Karen A.
Twitchell
Its: Treasurer*

*KAISER MICROMILL HOLDINGS, LLC

By:/s/Karen A. Twitchell
Name Printed: Karen A. Twitchell*

*KAISER SIERRA MICROMILLS,
LLC
By:/s/Karen A. Twitchell
Name Printed: Karen A.
Twitchell*

Its: Treasurer

*KAISER TEXAS SIERRA MICROMILLS,
LLC*

*By:/s/Karen A. Twitchell
Name Printed: Karen A. Twitchell*

Its: Treasurer

*KAISER BELLWOOD CORPORATION
By:/s/Karen A. Twitchell
Name Printed: Karen A. Twitchell
Its: Treasurer*

Its: Treasurer

*KAISER TEXAS MICROMILL
HOLDINGS, LLC*

*By:/s/Karen A. Twitchell
Name Printed: Karen A.
Twitchell*

Its: Treasurer

EXHIBIT C

SUPPLEMENT TO SUBSIDIARY PLEDGE AGREEMENT
THIS SUPPLEMENT TO SUBSIDIARY PLEDGE AGREEMENT (this

"Supplement"), dated as of February 23, 1999, is by and between Kaiser Transaction Corp., a Delaware corporation (the "New Kaiser Subsidiary"), and BankAmerica Business Credit, Inc., a Delaware corporation, as agent for the Secured Lenders (as defined in the Credit Agreement referred to below) (in such capacity, together with its successors and assigns in such capacity, the "Agent"). Capitalized terms used, but not defined, herein shall have the meanings given to such terms in the Credit Agreement, as amended by the Fifteenth Amendment (as defined below).

WITNESSETH:

WHEREAS, Kaiser Aluminum & Chemical Corporation, a Delaware corporation (the "Company"), Kaiser Aluminum Corporation, a Delaware corporation (the "Parent Guarantor"), the various financial institutions that are or may from time to time become parties to the Credit Agreement (collectively, the "Lenders" and, individually, a "Lender"), and the Agent are parties to the Credit Agreement, dated as of February 15, 1994, as amended by the First Amendment to Credit Agreement, dated as of July 21, 1994, the Second Amendment to Credit Agreement, dated as of March 10, 1995, the Third Amendment to Credit Agreement and Acknowledgment, dated as of July 20, 1995, the Fourth Amendment to Credit Agreement, dated as of October 17, 1995, the Fifth Amendment to Credit Agreement, dated as of December 11, 1995, the Sixth Amendment to Credit Agreement, dated as of October 1, 1996, the Seventh Amendment to Credit Agreement, dated as of December 17, 1996, the Eighth Amendment to Credit Agreement, dated as of February 24, 1997, the Ninth Amendment to Credit Agreement, dated as of April 21, 1997, the Tenth Amendment to Credit Agreement and Assignment, dated as of June 25, 1997, the Eleventh Amendment to Credit Agreement and Limited Waivers, dated as of October 20, 1997, the Twelfth Amendment to Credit Agreement, dated as of January 13, 1998, the Thirteenth Amendment to Credit Agreement, dated as of July 20, 1998, and the Fourteenth Amendment to Credit Agreement, dated as of December 11, 1998; and

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

WHEREAS, the New Kaiser Subsidiary is required as a condition to the effectiveness of the Fifteenth Amendment to execute this Supplement; and

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

NOW, THEREFORE, the parties hereto agree as follows:

Section 1. Addition of New Kaiser Subsidiary.

On and after the Fifteenth Amendment Effective Date (as defined in the Fifteenth Amendment), the New Kaiser Subsidiary shall be a party to the Subsidiary Pledge Agreement and the terms "Pledgor" and "Pledgors" (as used in the Subsidiary Pledge Agreement) shall include and also be a reference to the New Kaiser Subsidiary.

Section 2. Pledgor's Representations and Warranties.

In order to induce the Agent to enter into this Supplement and to supplement the Subsidiary Pledge Agreement in the manner provided herein, and to induce the Required Lenders to consent to such action by the Agent, the New Kaiser Subsidiary represents and warrants as a Pledgor to each Lender and the Agent that, as of the Fifteenth Amendment Effective Date after giving effect to the effectiveness of this Supplement, the following statements are true and correct in all material respects:

A. Authorization of Agreements. The execution and delivery of this Supplement by such Pledgor and the performance of the Subsidiary Pledge Agreement as supplemented by this Supplement (the "Supplemented Agreement") by such Pledgor are within such Pledgor's corporate powers and have been duly authorized by all necessary corporate action on the part of such Pledgor.

B. No Conflict. The execution and delivery by such

Pledgor of this Supplement and the performance by such Pledgor of the Supplemented Agreement do not:

(1) contravene such Pledgor's Organic Documents;

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

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

C. Binding Obligation. This Supplement has been duly executed and delivered by such Pledgor and this Supplement and the Supplemented Agreement constitute the legal, valid and binding obligations of such Pledgor, enforceable against such Pledgor in accordance with their respective terms, except as may be limited by bankruptcy, insolvency, reorganization, moratorium or similar laws relating to or limiting creditors' rights generally and by general principles of equity.

D. Governmental Approval, Regulation, etc. No authorization or approval or other action by, and no notice to or filing with, any governmental authority or regulatory body or other Person is required for the due execution, delivery or performance of this Supplement by such Pledgor.

Section 3. Miscellaneous.

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

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

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

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

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

BANKAMERICA BUSINESS CREDIT,
INC., as Agent

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

KAISER TRANSACTION CORP.

By:/s/Karen A. Twitchell
Name: Karen A. Twitchell
Its: Treasurer

ACKNOWLEDGED AND AGREED TO:

AKRON HOLDING CORPORATION

By:/s/Karen A. Twitchell
Name Printed: Karen A. Twitchell
Its: Treasurer

KAISER ALUMINUM PROPERTIES,
INC.

By:/s/Karen A. Twitchell
Name Printed: Karen A. Twitchell
Its: Treasurer

OXNARD FORGE DIE COMPANY, INC.

By:/s/Karen A. Twitchell
Name Printed: Karen A. Twitchell
Its: Treasurer

KAISER ALUMINA AUSTRALIA
CORPORATION

By:/s/Karen A. Twitchell
Name Printed: Karen A. Twitchell
Its: Treasurer

KAISER MICROMILL HOLDINGS, LLC

By:/s/Karen A. Twitchell
Name Printed: Karen A. Twitchell
Its: Treasurer

KAISER TEXAS SIERRA MICROMILLS,
LLC

By:/s/Karen A. Twitchell
Name Printed: Karen A. Twitchell
Its: Treasurer

KAISER BELLWOOD CORPORATION

By:/s/Karen A. Twitchell
Name Printed: Karen A. Twitchell
Its: Treasurer

KAISER ALUMINUM &
CHEMICAL INVESTMENT, INC.

By:/s/Karen A. Twitchell
Name Printed: Karen A.
Twitchell
Its: Treasurer

KAISER ALUMINUM TECHNICAL
SERVICES, INC.

By:/s/Karen A. Twitchell
Name Printed: Karen A.
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Its: Treasurer

KAISER ALUMINIUM
INTERNATIONAL, INC.

By:/s/Karen A. Twitchell
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KAISER FINANCE
CORPORATION

By:/s/Karen A. Twitchell
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KAISER SIERRA MICROMILLS,
LLC

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Name Printed: Karen A.
Twitchell
Its: Treasurer

KAISER TEXAS MICROMILL
HOLDINGS, LLC

By:/s/Karen A. Twitchell
Name Printed: Karen A.
Twitchell
Its: Treasurer

EXECUTION COPY
SUPPLEMENT TO SUBSIDIARY SECURITY AGREEMENT
THIS SUPPLEMENT TO SUBSIDIARY SECURITY AGREEMENT (this

"Supplement"), dated as of February 23, 1999, is by and between Kaiser Transaction Corp., a Delaware corporation (the "New Kaiser Subsidiary"), and BankAmerica Business Credit, Inc., a Delaware corporation, as agent for the Secured Lenders (as defined in the Credit Agreement referred to below) (in such capacity, together with its successors and assigns in such capacity, the "Agent"). Capitalized terms used, but not defined, herein shall have the meanings given to such terms in the Credit Agreement, as amended by the Fifteenth Amendment (as defined below).

WITNESSETH:

WHEREAS, Kaiser Aluminum & Chemical Corporation, a Delaware corporation (the "Company"), Kaiser Aluminum Corporation, a Delaware corporation (the "Parent Guarantor"), the various financial institutions that are or may from time to time become parties to the Credit Agreement (collectively, the "Lenders" and, individually, a "Lender"), and the Agent are parties to the Credit Agreement, dated as of February 15, 1994, as amended by the First Amendment to Credit Agreement, dated as of July 21, 1994, the Second Amendment to Credit Agreement, dated as of March 10, 1995, the Third Amendment to Credit Agreement and Acknowledgment, dated as of July 20, 1995, the Fourth Amendment to Credit Agreement, dated as of October 17, 1995, the Fifth Amendment to Credit Agreement, dated as of December 11, 1995, the Sixth Amendment to Credit Agreement, dated as of October 1, 1996, the Seventh Amendment to Credit Agreement, dated as of December 17, 1996, the Eighth Amendment to Credit Agreement, dated as of February 24, 1997, the Ninth Amendment to Credit Agreement, dated as of April 21, 1997, the Tenth Amendment to Credit Agreement and Assignment, dated as of June 25, 1997, the Eleventh Amendment to Credit Agreement and Limited Waivers, dated as of October 20, 1997, the Twelfth Amendment to Credit Agreement, dated as of January 13, 1998, the Thirteenth Amendment to Credit Agreement, dated as of July 20, 1998, and the Fourteenth Amendment to Credit Agreement, dated as of December 11, 1998 (the "Credit Agreement"); and

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

WHEREAS, the New Kaiser Subsidiary is required as a condition to the effectiveness of the Fifteenth Amendment to execute this Supplement; and

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

NOW, THEREFORE, the parties hereto agree as follows:

Section 1. Addition of New Kaiser Subsidiary.

On and after the Fifteenth Amendment Effective Date (as

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

Section 2. Kaiser Subsidiary's Representations and **Warranties**.

In order to induce the Agent to enter into this Supplement and to supplement the Subsidiary Security Agreement in the manner provided herein, and to induce the Required Lenders to consent to such action by the Agent, the New Kaiser Subsidiary represents and warrants as a Kaiser Subsidiary to each Lender and the Agent that, as of the Fifteenth Amendment Effective Date after giving effect to the effectiveness of this Supplement, the following statements are true and correct in all material respects:

A. Authorization of Agreements. The execution and delivery of this Supplement by such Kaiser Subsidiary and the performance of the Subsidiary Security Agreement as supplemented by this Supplement (the "Supplemented Agreement") by such Kaiser Subsidiary are within such Kaiser Subsidiary's corporate powers and have been duly authorized by all necessary corporate action on the part of such Kaiser Subsidiary.

B. No Conflict. The execution and delivery by such Kaiser Subsidiary of this Supplement and the performance by such Kaiser Subsidiary of the Supplemented Agreement do not:

(1) contravene such Kaiser Subsidiary's Organic Documents;

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

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

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

D. Governmental Approval, Regulation, etc. No authorization or approval or other action by, and no notice to or filing with, any governmental authority or regulatory body or other Person is required for the due execution, delivery or performance of this Supplement by such Kaiser Subsidiary, other than the filing of appropriate financing statements.

Section 4. Miscellaneous.

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

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

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

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

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

*BANKAMERICA BUSINESS CREDIT,
INC., as Agent
By:/s/Michael J. Jasaitis
Name: Michael J. Jasaitis
Its: Vice President*

*KAISER TRANSACTION CORP.
By:/s/Karen A. Twitchell
Name: Karen A. Twitchell
Its: Treasurer*

*ACKNOWLEDGED AND AGREED TO:
AKRON HOLDING CORPORATION*

*KAISER ALUMINUM &
CHEMICAL INVESTMENT, INC.*

*By:/s/Karen A. Twitchell
Name Printed: Karen A. Twitchell
Its: Treasurer*

*By:/s/Karen A. Twitchell
Name Printed: Karen A.
Twitchell
Its: Treasurer*

*KAISER ALUMINUM PROPERTIES,
INC.
By:/s/Karen A. Twitchell
Name Printed: Karen A. Twitchell
Its: Treasurer*

*KAISER ALUMINUM TECHNICAL
SERVICES, INC.
By:Karen A. Twitchell
Name Printed: Karen A.
Twitchell
Its: Treasurer*

*OXNARD FORGE DIE COMPANY, INC.
By:/s/Karen A. Twitchell
Name Printed: Karen A. Twitchell
Its: Treasurer*

*KAISER ALUMINIUM
INTERNATIONAL, INC.
By:/s/Karen A. Twitchell
Name Printed: Karen A.
Twitchell
Its: Treasurer*

*KAISER ALUMINA AUSTRALIA
CORPORATION
By:/s/Karen A. Twitchell
Name Printed: Karen A. Twitchell
Its: Treasurer*

*KAISER FINANCE
CORPORATION
By:/s/Karen A. Twitchell
Name Printed: Karen A.
Twitchell
Its: Treasurer*

*KAISER MICROMILL HOLDINGS, LLC
By:/s/Karen A. Twitchell
Name Printed: Karen A. Twitchell
Its: Treasurer*

*KAISER SIERRA MICROMILLS,
LLC
By:/s/Karen A. Twitchell
Name Printed: Karen A.
Twitchell
Its: Treasurer*

KAISER TEXAS SIERRA MICROMILLS,
LLC

By:/s/Karen A. Twitchell

Name Printed: Karen A. Twitchell

Its: Treasurer

KAISER TEXAS MICROMILL
HOLDINGS, LLC

By:/s/Karen A. Twitchell

Name Printed: Karen A.
Twitchell

Its: Treasurer

KAISER BELLWOOD CORPORATION

By:/s/Karen A. Twitchell

Name Printed: Karen A. Twitchell

Its: Treasurer

Supplement to the Subsidiary Security Agreement

Schedule I

U.S. Trademarks, Trade Names and Service Marks As of the Fifteenth Amendment Effective Date, there are no Trademarks registered in the name of the New Kaiser Subsidiary in the United States Patent and Trademark Office.

Supplement to the Subsidiary Security Agreement

Schedule II

U.S. Patents

As of the Fifteenth Amendment Effective Date, there are no Patents registered in the name of the New Kaiser Subsidiary in the United States Patent and Trademark Office.

Supplement to the Subsidiary Security Agreement

Schedule III

Location of Collateral The chief place of business and the chief executive office of the New Kaiser Subsidiary as of the Fifteenth Amendment Effective Date is, and for the four-month period immediately preceding such date (or such shorter time as such New Kaiser Subsidiary has been organized) has been, located at 6177 Sunol Boulevard, Pleasanton, California 94566-7769 or 5847 San Felipe, Suite 2600, Houston, Texas 77057-3010.

As of the Fifteenth Amendment Effective Date, all of the current books and records located in the United States of the New Kaiser Subsidiary, including its records regarding any Accounts and contracts relating to any Accounts and all originals, if any, of Chattel Paper and Documents (including all Documents covering any Goods of such New Kaiser Subsidiary), and all of the New Kaiser Subsidiary's other books and records, contracts, Chattel Paper, Equipment, Documents, Inventory, and other Goods located in the United States (excluding such books and records, Documents, Equipment, contracts, Chattel Paper, Inventory, or other Goods which are in transit or which are otherwise temporarily off such premises in the ordinary course of such New Kaiser Subsidiary's business) are located at:

**6177 SUNOL BOULEVARD
PLEASANTON, CALIFORNIA 94566-7769
(ALAMEDA COUNTY)**

**5847 SAN FELIPE
SUITE 2600
HOUSTON, TEXAS 77057-3010
(HARRIS COUNTY)**

Supplement to the Subsidiary Security Agreement

Schedule IV

Third Party Locations of Collateral

As of the Fifteenth Amendment Effective Date, Collateral of the New Kaiser Subsidiary may be located at the following third party locations:

None

Supplement to the Subsidiary Security Agreement

Schedule V

Deposit and Cash Equivalent Investment Accounts

As of the Fifteenth Amendment Effective Date, the New Kaiser Subsidiary has no deposit accounts or accounts for holding Cash Equivalent Investments in the United States.

Supplement to the Subsidiary Security Agreement

Schedule VI

List of Trade Names and Fictitious Business Names No additional information.

List of Filing Offices

State	Office
California	Secretary of State
Texas	Secretary of State

**EXECUTION COPY
SUPPLEMENT TO SUBSIDIARY GUARANTY**

THIS SUPPLEMENT TO SUBSIDIARY GUARANTY (this "Supplement"), dated as of February 23, 1999, is by and between Kaiser Transaction Corp., a Delaware corporation (the "New Kaiser Subsidiary"), and BankAmerica Business Credit, Inc., a Delaware corporation, as agent for the Secured Lenders (as defined in the Credit Agreement referred to below) (in such capacity, together with its successors and assigns in such capacity, the "Agent"). Capitalized terms used, but not defined, herein shall have the meanings given to such terms in the Credit Agreement, as amended by the Fifteenth Amendment (as defined below).

W I T N E S S E T H:

WHEREAS, Kaiser Aluminum & Chemical Corporation, a Delaware corporation (the "Company"), Kaiser Aluminum Corporation, a Delaware corporation (the "Parent Guarantor"), the various financial institutions that are or may from time to time become parties to the Credit Agreement (collectively, the "Lenders" and, individually, a "Lender"), and the Agent are parties to the Credit Agreement, dated as of February 15, 1994, as amended by the First Amendment to Credit Agreement, dated as of July 21, 1994, the Second Amendment to Credit Agreement, dated as of March 10, 1995, the Third Amendment to Credit Agreement and Acknowledgment, dated as of July 20, 1995, the Fourth Amendment to Credit Agreement, dated as of October 17, 1995, the Fifth Amendment to Credit Agreement, dated as of December 11, 1995, the Sixth Amendment to Credit Agreement, dated as of October 1, 1996, the Seventh Amendment to Credit Agreement, dated as of December 17, 1996, the Eighth Amendment to Credit Agreement, dated as of February 24, 1997, the Ninth Amendment to Credit Agreement, dated as of April 21, 1997, the Tenth Amendment to Credit Agreement and Assignment, dated as of June 25, 1997, the Eleventh Amendment to Credit Agreement and Limited Waivers, dated as of October 20, 1997, the Twelfth Amendment to Credit Agreement, dated as of January 13, 1998, the Thirteenth Amendment to Credit Agreement, dated as of July 20, 1998, and the Fourteenth Amendment to Credit Agreement, dated as of December 11, 1998; and WHEREAS, as of the date hereof the Company, the Parent Guarantor, the Lenders and the Agent are entering into a Fifteenth Amendment to Credit Agreement (the "Fifteenth Amendment"); and

WHEREAS, the New Kaiser Subsidiary is required as a condition to the effectiveness of the Fifteenth Amendment to execute this Supplement; and

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

NOW, THEREFORE, the parties hereto agree as follows:

Section 1. Addition of New Kaiser Subsidiary.

On and after the Fifteenth Amendment Effective Date (as defined in the Fifteenth Amendment), the New Kaiser Subsidiary shall be party to the Subsidiary Guaranty and the terms "Guarantor" and "Guarantors" (as used in the Subsidiary Guaranty) shall include and also be a reference to the New Kaiser Subsidiary.

Section 2. Guarantors' Representations and Warranties.

In order to induce the Agent to enter into this Supplement and to supplement the Subsidiary Guaranty in the manner provided herein, and to induce the Required Lenders to consent to such action by the Agent, the New Kaiser Subsidiary represents and warrants as a Guarantor to each Lender and the Agent that, as of the Fifteenth Amendment Effective Date after giving effect to the effectiveness of this Supplement, the following statements are true and correct in all material respects:

A. Authorization of Agreements. The execution and delivery of this Supplement by such Guarantor and the performance of the Subsidiary Guaranty as supplemented by this Supplement (the "Supplemented Agreement") by such Guarantor are within such Guarantor's corporate powers and have been duly authorized by all necessary corporate action on the part of such Guarantor.

B. No Conflict. The execution and delivery by such Guarantor of this Supplement and the performance by such Guarantor of the Supplemented Agreement do not:

(1) contravene such Guarantor's Organic Documents;

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

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

C. Binding Obligation. This Supplement has been duly executed and delivered by such Guarantor and this Supplement and the Supplemented Agreement constitute the legal, valid and binding obligations of such Guarantor, enforceable against such Guarantor in accordance with their respective terms, except as may be limited by bankruptcy, insolvency, reorganization, moratorium or similar laws relating to or limiting

creditors' rights generally and by general principles of equity.

D. Governmental Approval, Regulation, etc. No authorization or approval or other action by, and no notice to or filing with, any governmental authority or regulatory body or other Person is required for the due execution, delivery or performance of this Supplement by such Guarantor.

Section 3. Miscellaneous.

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

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

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

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

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

BANKAMERICA BUSINESS CREDIT,
INC., as Agent

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

KAISER TRANSACTION CORP.

By:/s/Karen A. Twitchell
Name: Karen A. Twitchell
Its: Treasurer

ACKNOWLEDGED AND AGREED TO:

AKRON HOLDING CORPORATION

By:/s/Karen A. Twitchell
Name Printed: Karen A. Twitchell
Its: Treasurer

KAISER ALUMINUM &
CHEMICAL INVESTMENT,
INC.

By:/s/Karen A. Twitchell
Name Printed: Karen A.
Twitchell
Its: Treasurer

KAISER ALUMINUM PROPERTIES,
INC.

By:/s/Karen A. Twitchell
Name Printed: Karen A. Twitchell
Its: Treasurer
OXNARD FORGE DIE COMPANY, INC.

KAISER ALUMINUM TECHNICAL
SERVICES, INC.

By:/s/Karen A. Twitchell
Name Printed: Karen A.
Twitchell
Its: Treasurer
KAISER ALUMINIUM
INTERNATIONAL, INC.

By:/s/Karen A. Twitchell
Name Printed: Karen A. Twitchell
Its: Treasurer

By:/s/Karen A. Twitchell
Name Printed: Karen A.
Twitchell
Its: Treasurer

KAISER ALUMINA AUSTRALIA
CORPORATION

By:/s/Karen A. Twitchell
Name Printed: Karen A. Twitchell
Its: Treasurer

KAISER FINANCE
CORPORATION

By:/s/Karen A. Twitchell
Name Printed: Karen A.
Twitchell
Its: Treasurer

ALPART JAMAICA INC.

By:/s/Karen A. Twitchell
Name Printed: Karen A. Twitchell
Its: Treasurer

KAISER JAMAICA
CORPORATION

By:/s/Karen A. Twitchell
Name Printed: Karen A.
Twitchell
Its: Treasurer

KAISER MICROMILL HOLDINGS, LLC

By:/s/Karen A. Twitchell
Name Printed: Karen A. Twitchell
Its: Treasurer

KAISER SIERRA
MICROMILLS, LLC

By:/s/Karen A. Twitchell
Name Printed: Karen A.
Twitchell
Its: Treasurer

KAISER TEXAS SIERRA MICROMILLS,
LLC

By:/s/Karen A. Twitchell
Name Printed: Karen A. Twitchell
Its: Treasurer

KAISER TEXAS MICROMILL
HOLDINGS, LLC

By:/s/Karen A. Twitchell
Name Printed: Karen A.
Twitchell
Its: Treasurer

KAISER BELLWOOD CORPORATION

By:/s/Karen A. Twitchell
Name Printed: Karen A. Twitchell
Its: Treasurer

EXECUTION COPY

SUPPLEMENT TO SUBSIDIARY PLEDGE AGREEMENT

THIS SUPPLEMENT TO SUBSIDIARY PLEDGE AGREEMENT (this "Supplement"), dated as of February 23, 1999, is by and between Kaiser Transaction Corp., a Delaware corporation (the "New Kaiser Subsidiary"), and BankAmerica Business Credit, Inc., a Delaware corporation, as agent for the Secured Lenders (as defined in the Credit Agreement referred to below) (in such capacity, together with its successors and assigns in such capacity, the "Agent"). Capitalized terms used, but not defined, herein shall have the meanings given to such terms in the Credit Agreement, as amended by the Fifteenth Amendment (as defined below).

WITNESSETH:

WHEREAS, Kaiser Aluminum & Chemical Corporation, a Delaware corporation (the "Company"), Kaiser Aluminum Corporation, a Delaware corporation (the "Parent Guarantor"), the various financial institutions that are or may from time to time become parties to the Credit Agreement (collectively, the "Lenders" and, individually, a "Lender"), and the Agent are parties to the Credit Agreement, dated as of February 15, 1994, as amended by the First Amendment to Credit Agreement, dated as of July 21, 1994, the Second Amendment to Credit Agreement, dated as of March 10, 1995, the Third Amendment to Credit Agreement and Acknowledgment, dated as of July 20, 1995, the Fourth Amendment to Credit Agreement, dated as of October 17, 1995, the Fifth Amendment to Credit Agreement, dated as of December 11, 1995, the Sixth Amendment to Credit Agreement, dated as of October 1, 1996, the Seventh Amendment to Credit Agreement, dated as of December 17, 1996, the Eighth Amendment to Credit Agreement, dated as of February 24, 1997, the Ninth Amendment to Credit Agreement, dated as of April 21, 1997, the Tenth Amendment to Credit Agreement and Assignment, dated as of June 25, 1997, the Eleventh Amendment to Credit Agreement and Limited Waivers, dated as of October 20, 1997, the Twelfth Amendment to Credit Agreement, dated as of January 13, 1998, the Thirteenth Amendment to Credit Agreement, dated as of July 20, 1998, and the Fourteenth Amendment to Credit Agreement, dated as of December 11, 1998; and

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

WHEREAS, the New Kaiser Subsidiary is required as a condition to the effectiveness of the Fifteenth Amendment to execute this Supplement; and

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

NOW, THEREFORE, the parties hereto agree as follows:

Section 1. Addition of New Kaiser Subsidiary.

On and after the Fifteenth Amendment Effective Date (as defined in the Fifteenth Amendment), the New Kaiser Subsidiary shall be a party to the Subsidiary Pledge Agreement and the terms "Pledgor" and "Pledgors" (as used in the Subsidiary Pledge Agreement) shall include and also be a reference to the New Kaiser Subsidiary.

Section 2. Pledgor's Representations and Warranties.

In order to induce the Agent to enter into this Supplement and to supplement the Subsidiary Pledge Agreement in the manner provided herein, and to induce the Required Lenders to consent to such action by the Agent, the New Kaiser Subsidiary represents and warrants as a Pledgor to each Lender and the Agent that, as of the Fifteenth Amendment Effective Date after giving effect to the effectiveness of this Supplement, the following statements are true and correct in all material respects:

A. Authorization of Agreements. The execution and delivery of this Supplement by such Pledgor and the performance of the Subsidiary Pledge Agreement as supplemented by this Supplement (the "Supplemented Agreement") by such Pledgor are within such Pledgor's corporate powers and have been duly authorized by all necessary corporate action on the part of such Pledgor.

B. No Conflict. The execution and delivery by such Pledgor of this Supplement and the performance by such Pledgor of the Supplemented Agreement do not:

(1) contravene such Pledgor's Organic Documents;

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

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

C. Binding Obligation. This Supplement has been duly executed and delivered by such Pledgor and this Supplement and the Supplemented Agreement constitute the legal, valid and binding obligations of such Pledgor, enforceable against such Pledgor in accordance with their respective terms, except as may be limited by bankruptcy, insolvency, reorganization, moratorium or similar laws relating to or limiting creditors' rights generally and by general principles of equity.

D. Governmental Approval, Regulation, etc. No authorization or approval or other action by, and no notice to or filing with, any governmental authority or regulatory body or other Person is required for the due execution, delivery or performance of this Supplement by such Pledgor.

Section 3. Miscellaneous.

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

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

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

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

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

*BANKAMERICA BUSINESS CREDIT,
INC., as Agent
By:/s/ Michael J. Jasaitis
Name: Michael J. Jasaitis
Its: Vice President*

*KAISER TRANSACTION CORP.
By:/s/Karen A. Twitchell
Name: Karen A. Twitchell
Its: Treasurer*

ACKNOWLEDGED AND AGREED TO:

AKRON HOLDING CORPORATION

*KAISER ALUMINUM &
CHEMICAL INVESTMENT,
INC.*

*By:/s/Karen A. Twitchell
Name Printed: Karen A. Twitchell
Its: Treasurer*

*By:/s/Karen A. Twitchell
Name Printed: Karen A.
Twitchell
Its: Treasurer*

*KAISER ALUMINUM PROPERTIES,
INC.*

*KAISER ALUMINUM TECHNICAL
SERVICES, INC.*

*By:/s/Karen A. Twitchell
Name Printed: Karen A. Twitchell
Its: Treasurer*

*By:/s/Karen A. Twitchell
Name Printed: Karen A.
Twitchell
Its: Treasurer*

OXNARD FORGE DIE COMPANY, INC.

*KAISER ALUMINIUM
INTERNATIONAL, INC.*

*By:/s/Karen A. Twitchell
Name Printed: Karen A. Twitchell
Its: Treasurer*

*By:/s/Karen A. Twitchell
Name Printed: Karen A.
Twitchell
Its: Treasurer*

*KAISER ALUMINA AUSTRALIA
CORPORATION*

*KAISER FINANCE
CORPORATION*

*By:/s/Karen A. Twitchell
Name Printed: Karen A. Twitchell
Its: Treasurer*

*By:/s/Karen A. Twitchell
Name Printed: Karen A.
Twitchell
Its: Treasurer*

KAISER MICROMILL HOLDINGS, LLC

*KAISER SIERRA
MICROMILLS, LLC*

*By:/s/Karen A. Twitchell
Name Printed: Karen A. Twitchell
Its: Treasurer*

*By:/s/Karen A. Twitchell
Name Printed: Karen A.
Twitchell
Its: Treasurer*

*KAISER TEXAS SIERRA MICROMILLS,
LLC*

*By:/s/Karen A. Twitchell
Name Printed: Karen A. Twitchell
Its: Treasurer*

*KAISER BELLWOOD CORPORATION
By:/s/Karen A. Twitchell
Name Printed: Karen A. Twitchell
Its: Treasurer*

*KAISER TEXAS MICROMILL
HOLDINGS, LLC*

*By:/s/Karen A. Twitchell
Name Printed: Karen A.
Twitchell
Its: Treasurer*

SIXTEENTH AMENDMENT TO CREDIT AGREEMENT

THIS SIXTEENTH AMENDMENT TO CREDIT AGREEMENT (this

"Amendment"), dated as of March 26, 1999, is by and between **KAISER ALUMINUM & CHEMICAL CORPORATION, a Delaware corporation** (the "Company"), KAISER ALUMINUM CORPORATION, a Delaware corporation (the "Parent Guarantor"), the various financial institutions that are or may from time to time become parties to the Credit Agreement referred to below (collectively, the "Lenders" and, individually, a "Lender"), and BANKAMERICA BUSINESS CREDIT, INC., a Delaware corporation, as agent (in such capacity, together with its successors and assigns in such capacity, the "Agent") for the Lenders. Capitalized terms used, but not defined, herein shall have the meanings given to such terms in the Credit Agreement, as amended hereby.

WITNESSETH:

WHEREAS, the Company, the Parent Guarantor, the Lenders and the Agent are parties to the Credit Agreement, dated as of February 15, 1994, as amended by the First Amendment to Credit Agreement, dated as of July 21, 1994, the Second Amendment to Credit Agreement, dated as of March 10, 1995, the Third Amendment to Credit Agreement and Acknowledgement, dated as of July 20, 1995, the Fourth Amendment to Credit Agreement, dated as of October 17, 1995, the Fifth Amendment to Credit Agreement, dated as of December 11, 1995, the Sixth Amendment to Credit Agreement, dated as of October 1, 1996, the Seventh Amendment to Credit Agreement, dated as of December 17, 1996, the Eighth Amendment to Credit Agreement, dated as of February 24, 1997, the Ninth Amendment to Credit Agreement and Acknowledgment, dated as of April 21, 1997, the Tenth Amendment to Credit Agreement and Assignment, dated as of June 25, 1997, the Eleventh Amendment to Credit Agreement and Limited Waivers, dated as of October 20, 1997, the Twelfth Amendment to Credit Agreement, dated as of January 13, 1998, the Thirteenth Amendment to Credit Agreement, dated as of July 20, 1998, the Fourteenth Amendment to Credit Agreement, dated as of December 11, 1998, and the Fifteenth Amendment to Credit Agreement, dated as of February 23, 1999 (the "Credit Agreement"); and

WHEREAS, the parties hereto have agreed to amend the Credit Agreement as herein provided; NOW, THEREFORE, the parties hereto agree as follows:

Section 1. Amendments to Credit Agreement.

1.1 Amendments to Article I: Definitions and Accounting Terms.

Subsection 1.1 of the Credit Agreement is hereby amended by amending the definition of "Minimum Net Worth" contained therein to read in its entirety as follows:

"Minimum Net Worth' means (a) for each Fiscal Quarter of the Company ending on or prior to December 31, 1998 (commencing with the Fiscal Quarter ending September 30, 1996), \$500,000,000 plus 50% of Net Income (but not loss) for each such Fiscal Quarter and (b) for each Fiscal Quarter of the Company ending after 1998, \$600,000,000 plus 50% of Net Income (but not loss) for each such Fiscal Quarter."

1.2 Amendments to Article IX: Covenants.

A. Section 9.2.4(a) of the Credit Agreement is hereby amended by deleting the proviso contained therein and substituting the following therefor: "provided that for purposes of this Section 9.2.4(a), the calculation of Net Worth shall exclude the effect of any non-cash charges, up to an aggregate amount of \$70,000,000, in respect of the Micromill project, including (without limitation) any write-down of Micromill project assets located at the Center for Technology in Pleasanton, California, and at the Micromill facility near Reno, Nevada."

B. Section 9.2.4(b) of the Credit Agreement is hereby amended to read in its entirety as follows:

"(b) Interest Coverage Ratio. The Company shall not permit the Interest Coverage Ratio (i) for the one Fiscal Quarter period ending March 31, 1996 to be less than 1.1 to 1.0, (ii) for the two Fiscal Quarter period ending June 30, 1996 to be less than 1.2 to 1.0, (iii) for the three Fiscal Quarter period ending September 30, 1996 to be less than 0.5 to 1.0, (iv) for the four Fiscal Quarter period ending December 31, 1996 to be less than 0.3 to 1.0, (v) for the one Fiscal Quarter period ending June 30, 1997 to be less than 0.2 to 1.0, (vi) for the two Fiscal Quarter period ending September 30, 1997 to be less than 0.4 to 1.0, (vii) for the three Fiscal Quarter period ending December 31, 1997 to be less than 0.6 to 1.0 and (viii) for the four Fiscal Quarter period ending on the last day of each of the Fiscal Quarters set forth below to be less than the correlative ratio indicated:

Date
Ratio

First Fiscal Quarter of 1998
0.80 to
1.00

Second Fiscal Quarter of 1998
1.20 to
1.00

Third Fiscal Quarter of 1998
1.60 to
1.00

Fourth Fiscal Quarter of 1998
1.10 to
1.00

First Fiscal Quarter of 1999
No Test

Second Fiscal Quarter of 1999
No Test

Third Fiscal Quarter of 1999
No Test

Fourth Fiscal Quarter of 1999
No Test

First Fiscal Quarter of 2000
0.50 to
1.00

Second Fiscal Quarter of 2000
0.50 to
1.00

Third Fiscal Quarter of 2000
0.50 to
1.00

Fourth Fiscal Quarter of 2000
0.50 to
1.00

First Fiscal Quarter of 2001
0.75 to
1.00

Second Fiscal Quarter of 2001
1.00 to
1.00

; provided that for purposes of calculating the Interest Coverage Ratio under this Section 9.2.4(b), EBITDA shall exclude the effect of any non-cash charges, up to an aggregate amount of \$70,000,000, in respect of the Micromill project, including (without limitation) any write-down of Micromill project assets located at the Center for Technology in Pleasanton, California, and at the Micromill facility near Reno, Nevada."

C. Section 9.2.8 of the Credit Agreement is hereby amended by deleting the term "\$35,000,000" contained therein and substituting the term "\$45,000,000" therefor.

Section 2. Conditions to Effectiveness.

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

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

B. The Agent shall have received:

- (1) Resolutions of the Board of Directors or of the Executive Committee of the Board of Directors of the Company and the Parent Guarantor approving and authorizing the execution, delivery and performance of this Amendment, certified by their respective corporate secretaries or assistant secretaries as being in full force and effect without modification or amendment as of the date of execution hereof by the Company or the Parent Guarantor, as the case may be;
- (2) A signature and incumbency certificate of the officers of the Company and the Parent Guarantor executing this Amendment;
- (3) For each Lender, an opinion, addressed to the Agent and each Lender, from Kramer Levin Naftalis & Frankel LLP, in form and substance satisfactory to the Agent;
- (4) Such other information, approvals, opinions, documents or instruments as the Agent may reasonably request; and
- (5) For the pro rata benefit of the Lenders, a fee in the amount of \$500,000.

Section 3. Company's Representations and **Warranties.**

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

A. Authorization of Agreements. The execution and delivery of this Amendment by the Company and the Parent Guarantor and the performance of the Credit Agreement as amended by this Amendment (the "Amended Agreement") by the Company and the Parent Guarantor are within such Obligor's corporate powers and have been duly authorized by all necessary corporate action on the part of the Company and the Parent Guarantor, as the case may be.

B. No Conflict. The execution and delivery by the Company and the Parent Guarantor of this Amendment and the performance by the Company and the Parent Guarantor of the Amended Agreement do not:

- (1) contravene such Obligor's Organic Documents;
- (2) contravene the Senior Indenture, the New Senior Indenture, the Additional New Senior Indentures, or the Subordinated Indenture or contravene any other contractual restriction where such a contravention has a reasonable possibility of having a Materially Adverse Effect or contravene any law or governmental regulation or court decree or order binding on or affecting such Obligor or any of its Subsidiaries; or
- (3) result in, or require the creation or imposition of, any Lien on any of such Obligor's properties or any of the properties of any Subsidiary of such Obligor, other than pursuant to the Loan Documents.

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

D. Governmental Approval, Regulation, etc. No authorization or approval or other action by, and no notice to or filing with, any governmental authority or regulatory body or any other Person is required for the due execution, delivery or performance of this Amendment by the Company or the Parent Guarantor.

E. Incorporation of Representations and

Warranties from Credit Agreement. Each of the statements

set forth in Section 7.2.1 of the Credit Agreement is true

and correct.

Section 4. Acknowledgement and Consent.

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

the Agent on certain Collateral. The Company, the Parent Guarantor and such Subsidiaries are collectively referred to herein as the "Credit Support Parties", and the Company Collateral Documents, the Parent Collateral Documents, the Subsidiary Guaranty and the Subsidiary Collateral Documents are collectively referred to herein as the "Credit Support Documents".

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

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

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

Section 5. Miscellaneous.

A. Reference to and Effect on the Credit Agreement and the Other Loan Documents.

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

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

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

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

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

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

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

KAISER ALUMINUM CORPORATION

*By:/s/David A. Cheadle
Name Printed: David A. Cheadle*

Its: Assistant Treasurer

*BANKAMERICA BUSINESS CREDIT,
INC., as Agent*

*By:/s/Michael J. Jasaitis
Name: Michael J. Jasaitis
Its: Vice President*

*BANK OF AMERICA NATIONAL TRUST
AND SAVINGS ASSOCIATION*

By:/s/Michael Balok

*KAISER ALUMINUM &
CHEMICAL CORPORATION*

*By:/s/David A. Cheadle
Name Printed: David A.
Cheadle*

Its: Assistant Treasurer

*BANKAMERICA BUSINESS
CREDIT, INC.*

*By:/s/Michael J. Jasaitis
Name: Michael J. Jasaitis
Its: Vice President*

*THE CIT GROUP/BUSINESS
CREDIT, INC.*

By:/s/Neal T. Legan

Name Printed: Michael Balok
Its: Managing Director

Name Printed: Neal T.
Legan
Its: Vice President

CONGRESS FINANCIAL CORPORATION
(WESTERN)

HELLER FINANCIAL, INC.

By: /s/Kristine Metchikian
Name Printed: Kristine Metchikian
Its: Vice President

By: /s/T. Bukowski
Name Printed: T. Bukowski
Its: Senior Vice President

LA SALLE NATIONAL BANK
CREDIT

TRANSAMERICA BUSINESS
CORPORATION

By: /s/Douglas C. Colletti
Name Printed: Douglas C. Colletti
Its: First Vice President

By: /s/R. L. Heinz
Name Printed: R. L. Heinz
Its: Senior Vice President

ABN AMRO BANK N.V.
San Francisco International Branch

By: ABN AMRO North America,
Inc., as agent

By: /s/Michael M. Tolentino
Name Printed: Michael M. Tolentino
Its: Vice President

By: /s/Jeffrey A. French
Name Printed: Jeffrey A. French
Its: Group Vice President

ACKNOWLEDGED AND AGREED TO:

AKRON HOLDING CORPORATION

By:/s/David A. Cheadle
Name Printed: David A. Cheadle
Its: Assistant Treasurer

KAISER ALUMINUM &
CHEMICAL INVESTMENT, INC.

By:/s/David A. Cheadle
Name Printed: David A.
Cheadle
Its: Assistant Treasurer

KAISER ALUMINUM PROPERTIES,
INC.

By:/s/David A. Cheadle
Name Printed: David A. Cheadle
Its: Assistant Treasurer

KAISER ALUMINUM TECHNICAL
SERVICES, INC.

By:/s/David A. Cheadle
Name Printed: David A.
Cheadle
Its: Assistant Treasurer

OXNARD FORGE DIE COMPANY, INC.

By:/s/David A. Cheadle
Name Printed: David A. Cheadle
Its: Assistant Treasurer

KAISER ALUMINIUM
INTERNATIONAL, INC.

By:/s/David A. Cheadle
Name Printed: David A.
Cheadle
Its: Assistant Treasurer

KAISER ALUMINA AUSTRALIA
CORPORATION

By:/s/David A. Cheadle
Name Printed: David A. Cheadle
Its: Assistant Treasurer

KAISER FINANCE
CORPORATION

By:/s/David A. Cheadle
Name Printed: David A.
Cheadle
Its: Assistant Treasurer

ALPART JAMAICA INC.

By:/s/David A. Cheadle
Name Printed: David A. Cheadle
Its: Assistant Treasurer

KAISER JAMAICA
CORPORATION

By:/s/David A. Cheadle
Name Printed: David A.
Cheadle
Its: Assistant Treasurer

KAISER BAUXITE COMPANY

By:/s/David A. Cheadle
Name Printed: David A. Cheadle
Its: Assistant Treasurer

KAISER EXPORT COMPANY

By:/s/David A. Cheadle
Name Printed: David A.
Cheadle
Its: Assistant Treasurer

KAISER MICROMILL HOLDINGS, LLC

By:/s/Ronald L. Reman
Name Printed: Ronald L. Reman
Its: Assistant Treasurer

KAISER SIERRA
MICROMILLS, LLC

By:/s/David A. Cheadle
Name Printed: David A.
Cheadle
Its: Assistant Treasurer

KAISER TEXAS SIERRA MICROMILLS,
LLC

By:/s/David A. Cheadle
Name Printed: David A. Cheadle
Its: Assistant Treasurer

KAISER TEXAS MICROMILL
HOLDINGS, LLC

By:/s/David A. Cheadle
Name Printed: David A.
Cheadle
Its: Assistant Treasurer

KAISER BELLWOOD CORPORATION

By:/s/David A. Cheadle
Name Printed: David A. Cheadle
Its: Assistant Treasurer

KAISER TRANSACTION CORP.

By:/s/David A. Cheadle
Name Printed: David A.
Cheadle
Its: Assistant Treasurer

July 27, 1998

Mr. John H. Walker
17908 N. Saddlehill
Colbert, WA 99005

Dear John:

I am pleased to inform you that you have been selected for coverage under the Enhanced Severance Protection and Change of Control Benefits Program ("Plan") for selected corporate officers.

As you know, Kaiser Aluminum is pursuing a strategy that could lead to various forms of corporate restructuring. In that connection, the Plan was developed and is being made available to selected key officers. The purposes of the Plan include all of the following:

- o Retention of top-performers and those with critical skills both pre and post restructuring;
- o Provision of appropriate protection to business unit management in the event of job loss and/or a change of control,¹ and
- o Maintenance of focus by management on key goals and maintenance of overall energy level through a potentially distracting period.

This letter sets forth the basic provisions of the Plan which, subject to the limits explained below, is being offered to you in conjunction with other benefits that otherwise may be payable to you under the Kaiser Aluminum Termination Payment and Benefits Plan Continuation Policy ("Policy"). For example, if you become eligible for 6 months under the enhanced severance part of the Plan and you already have earned 3 months severance under the Policy, you would receive 3 months severance from the Policy and 3 months severance from the Plan.

The Plan will be in effect through the end of the 2000 calendar year, unless earlier amended or terminated by the Compensation Committees or Boards of Directors of Kaiser Aluminum Corporation and Kaiser Aluminum & Chemical Corporation. No amendment or termination of the Plan will adversely affect your right to receive benefits provided under the Plan without your written consent. After the year 2000, management will determine the need for any other protection or enhanced severance programs.

¹ See page 3 for definition of "change of control".

Enhanced Severance Protection

Under the enhanced severance protection features of the Plan, you will qualify for such severance benefits if you are terminated for any reason except for the following exclusions:

1. You voluntarily resign or retire.
2. You are discharged for serious cause or other reason prejudicial to Kaiser Aluminum.
3. You are eligible for sick leave, LTD or KRP full early disability benefits. Or, you were eligible for sick leave or LTD benefits and (i) you did not report back to work immediately after your eligibility for such benefits ceased, or (ii) you were not medically released to work at the time such benefits ceased.
4. You refuse to accept another suitable position with Kaiser Aluminum. Suitability is determined in accordance with guidelines established from time to time by the personnel policy committee.
5. You terminate employment on account of death.

In the event that your employment terminates and you qualify for enhanced severance protection under the Plan, such benefits will be as follows:

- o 12 months base salary,
- o Prorated incentive awards (prorated incentive target for all short and long term incentive programs in progress at termination).
- o Continuation of your coverage under medical, dental, life and AD&D coverage by Kaiser Aluminum² as if your employment had continued uninterrupted for up to 12 months. You must continue to pay your monthly medical and life insurance contributions (if any) for this coverage to remain in effect.
- o Continued use of your company car for the number of the severance months. However, Kaiser Aluminum reserves the right to offer you a

reasonable cash buyout for any time remaining, should the company decide to eliminate the leased car program.

Change of Control

In the event that your employment terminates or constructively terminates (described below), due to a change of control or significant restructuring, during a period which commences ninety (90) days prior to a change of control or significant restructuring and ends on the first anniversary of

2 As you will not actually be an active employee, your coverage under the cafeteria plan, spending accounts for medical and dependent care expense reimbursement and the LTD Plan will cease. Your eligibility for COBRA coverage will commence after the medical continuation benefits cease, and the medical continuation period is subtracted from your COBRA eligibility period.

such change of control or significant restructuring, in lieu of the enhanced severance protection benefits described above, you will qualify for change of control benefits.

Change of control or significant restructuring is defined as: The transfer of all or part of the assets of, or the merger, consolidation or reorganization of, Kaiser Aluminum to or with another organization or the transfer of all or part of the stock of Kaiser Aluminum to another organization.

These benefits are payable as described below, if you are terminated or constructively terminated due to a change of control or significant restructuring, except for the following exclusions:

1. The purchaser or new controlling entity or Kaiser Aluminum offers you suitable employment in substantially the same capacity and at your current level of compensation. This exception will apply regardless of whether you accept or reject the suitable position.
2. You voluntarily resign or retire.
3. You are discharged for serious cause or other reason prejudicial to Kaiser Aluminum.
4. You are eligible, within the 90 days prior to a change of control, for sick leave, LTD or KRP full early disability benefits. Or, you were eligible for sick leave or LTD benefits and (i) you did not report back to work immediately after your eligibility for such benefits ceased, or (ii) you were not medically released to work at the time such benefits ceased.
5. You terminate employment on account of death.

The change of control benefits under the Plan will be as follows:

- o 24 months base salary,
- o Prorated incentive awards (prorated incentive target for all short and long term incentive programs in progress at termination).
- o Continuation of your coverage under medical, dental, life and AD&D coverage by Kaiser Aluminum³ as if your employment had continued uninterrupted for up to 24 months. You must continue to pay your monthly medical and life insurance contributions (if any) for this coverage to remain in effect.

3 As you will not actually be an active employee, your coverage under the cafeteria plan, spending accounts for medical and dependent care expense reimbursement and the LTD Plan will cease. Your eligibility for COBRA coverage will commence after the medical continuation benefits cease, and the medical continuation period is subtracted from your COBRA eligibility period.

o Continued use of your company car for the number of the severance months. However, Kaiser Aluminum reserves the right to offer you a reasonable cash buyout for any time remaining, should the company decide to eliminate the leased car program.

For purposes of the Plan, you will be deemed to be constructively terminated if:

- o You are demoted, suffer a substantial reduction of position responsibilities or a substantial change in reporting responsibilities or reporting level;
- o You are relocated more than fifty (50) miles from your present office location, except for a promotion and / or mutually agreed transfer; or
- o You suffer a reduction of your base salary and / or total incentive opportunity.

Payments of base salary and prorated incentive awards under the Plan shall be made (net of withholding for federal, state and local taxes) in a single sum in cash within thirty (30) days following your termination or constructive termination of employment. You will be responsible for timely payment of any additional taxes that may be due on the benefits received under the Plan. Should you feel that you have reason to contest any settlement under the Plan, you may do so by following the same procedures as apply to the Company's other severance pay plans, as such claims procedures are incorporated in the Plan by this reference.

Kaiser Aluminum shall have the sole discretion to determine which employees shall participate in the Plan and their level of participation. Kaiser Aluminum also has the authority to construe, interpret and implement the Plan (including the right to make factual determinations) and to make rules and otherwise administer the Plan, and its determination on any matter relating to the Plan shall be conclusive and binding on all interested persons. To the extent not preempted by federal law, the Plan shall be construed in accordance with and governed by the laws of the State of Texas.

As part of your enhanced severance and benefit eligibility under the Plan for the one year period following the termination of your employment, you shall not, without prior written consent of Kaiser Aluminum, directly or indirectly engage in the business of developing products competitive with Kaiser Aluminum within the United States of America or any other geographical area served by Kaiser Aluminum. Nor will you engage, within this geographical area, in the design, development, distribution, manufacture, assembly or sale of a product or service in competition with any product or service currently marketed or planned by Kaiser Aluminum to the extent such activity would reveal the plans, designs or specifications disclosed to you by Kaiser Aluminum. This paragraph does not restrict your ownership of securities in any enterprise or participation in the management of any non- Kaiser competitive aspect of any enterprise. By signing this letter in the space provided, you acknowledge that these prohibitions are both reasonable as to time, geographical area and scope of activity and do not impose a restriction greater than is necessary to protect Kaiser Aluminum's good will, proprietary information and business interests. Additionally, your signature below acknowledges your continued commitment to abide by the terms of paragraphs 2, 3, 4, 5, 6 and 7 of your Employment Agreement as well as the Corporate Code of Business conduct and Accompanying Compliance Manuals. If you have any questions concerning your obligations under either of these documents, please let me know.

Participation in the Plan will not give rise to any right to continued employment, shall not in any way prohibit changes in the terms of your employment and shall not in any way limit the right of Kaiser Aluminum to terminate your employment at any time for any reason with or without stating a reason.

Kaiser Aluminum may assign its rights and obligations hereunder. In such event, such rights and obligations shall inure to the benefit of and shall be binding upon the successors and assigns of Kaiser Aluminum. Your rights and obligations hereunder are personal, and such rights and obligations shall not be subject to voluntary or involuntary assignment or other transfer by you and any attempted alienation, assignment or other transfer of your rights or obligations hereunder shall be void and without effect.

I congratulate you on your selection to participate in the Plan. It indicates your importance to the performance of Kaiser Aluminum. I would also like to thank you for your dedicated service and contribution to the past success of Kaiser Aluminum, and look forward to your continued contribution.

If you have any questions regarding the Plan, please feel free to discuss them with me, or call Bill Edgley, Director, Corporate Human Resources. If the foregoing is acceptable, please indicate your acceptance by signing the duplicate copy of this letter and returning the signed copy to the attention of Bill Edgley at Kaiser Aluminum, 6177 Sunol Blvd., Pleasanton, CA 94566.

Sincerely,

/s/Ray Milchovich

*Ray Milchovich
President and Chief Operating Officer*

AGREED TO AND ACCEPTED BY:

/s/ John H. Walker

Printed Name: John H. Walker

Title: President, FRP

Dated: 9/30/98

**PERFORMANCE-ACCELERATED STOCK OPTION GRANT
PURSUANT TO THE KAISER
1997 OMNIBUS STOCK INCENTIVE PLAN**

1. Grant of Stock Option. Kaiser Aluminum Corporation ("KAC") and Kaiser Aluminium & Chemical Corporation ("KACC"), both Delaware corporations (collectively, the "Company"), hereby evidence that the Company has granted to George T. Haymaker, Jr. ("Optionee") the right, privilege and option as herein set forth (the "Stock Option") to purchase up to 386,000 shares of common stock, \$.01 par value per share, of KAC (as more fully defined in Attachment A - "Definitions Applicable to Certain Terms", which is incorporated herein and made a part hereof, the "Option Shares") in accordance with the terms of this document (this "Stock Option Grant").

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

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

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

2. Option Term. Subject to earlier termination as provided herein, or in the Plan, the Stock Option shall expire on January 1, 2007. The period during which the Stock Option is in effect shall be referred to as the "Option Period".

3. Option Exercise Price. The exercise price per Option Share (including any Attributable Securities, as defined in Attachment A) (the "Option Price") at which Optionee may purchase such

Option Shares subject to the Stock Option shall be equal to the remainder of (i) \$12.00 per Option Share minus (ii) the amount per Option Share of Distributed Cash Value (as defined in Attachment A) determined as of the date of exercise. Such Option Price shall also be subject to adjustment as provided in the Plan and this Stock Option Grant. The Company shall notify Optionee within thirty (30) days of each change in the Option Price.

4. Conditions to Exercise. The Stock Option may be exercised during the Option Period only after it has become "Effective". For purposes of the preceding sentence, the Stock Option shall become "Effective": (i) if Performance Hurdle Achievement (as defined in Attachment A) occurs before March 1, 2001, then on the date Performance Hurdle Achievement occurs; (ii) if Performance Hurdle Achievement does not occur before March 1, 2001, then on January 1, 2007 provided Optionee's Employment has not terminated prior to January 1, 2007; or (iii) if a Company Sale Transaction (as defined in Attachment A) occurs during Optionee's Qualified Service Period (as defined in Attachment A), then on the date of consummation of such Company Sale Transaction.

In addition, notwithstanding the foregoing, the Stock Option may not be exercised as to more than one-half of the total number of Option Shares prior to the earlier of March 1, 2001 or the occurrence of a Company Sale Transaction.

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

6. Termination of Optionee's Employment. Termination of Optionee's employment as a regular full-time salaried employee of KAC, a Subsidiary (as defined in Attachment A), or any branch, unit or division of KAC or any Subsidiary ("Employment") prior to March 1, 2001 shall affect Optionee's rights under the Stock Option as follows:

(a) Termination by the Company for Cause. If Optionee's Employment is terminated by the Company at any time for Cause, then (i) the Option Period shall terminate and (ii) Optionee's right to exercise the Stock Option shall terminate, in each case immediately upon Optionee's becoming subject to termination of Employment for Cause. Optionee shall be terminated for "Cause" if terminated as a result of Optionee's breach of Optionee's written employment or other engagement agreement, or if the Board of Directors determines that Optionee is being terminated as a result of misconduct, dishonesty, disloyalty, disobedience or action that might reasonably be expected to injure KAC or any Subsidiary or their business interests or reputation.

(b) Termination by the Company Other than for Cause. If Optionee's Employment is terminated by the Company prior to March 1, 2001 other than for Cause, then (i) the Stock Option and the Option Period shall not terminate and (ii) the Stock Option shall thereafter be exercisable as to all Option Shares, but only during the period from the date the Stock Option becomes Effective through and including September 1, 2001; provided, however, that such exercise may not occur after 6 months from the date on which Performance Hurdle Achievement occurs, if applicable.

(c) Employment Agreement Termination. If Optionee terminates Optionee's Employment at the expiration of Optionee's Employment

Agreement (December 5, 1999), or at any time within the month of expiration (December 1999), then (i) the Stock Option and the Option Period shall not terminate and (ii) the Stock Option shall thereafter be exercisable as to all Option Shares, but only during the period from the date the Stock Option becomes Effective through and including September 1, 2001; provided, however, that such exercise may not occur after 6 months from the date on which Performance Hurdle Achievement occurs, if applicable.

(d) Other Termination. If Optionee's Employment terminates prior to March 1, 2001 for any reason other than those set forth in Paragraph 6(a), Paragraph 6(b) and Paragraph 6(c), then (i) the Stock Option and the Option Period shall not terminate but

(ii) the Stock Option shall thereafter be exercisable only if the Stock Option has become Effective as of the date of termination of Employment and then only during the period from the date the Stock Option becomes Effective through and including September 1, 2001; provided, however, that such exercise may not occur after 6 months from the date on which Performance Hurdle Achievement occurs, if applicable.

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

7. Reorganizations; Repurchase of Stock Option.

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

(b) Spin-Offs. If the Board of Directors authorizes any Distribution Event or other Reorganization as a result of which holders of Shares (as defined in Attachment A) become entitled, in their capacities as holders, to receive Marketable Securities, the Board of Directors shall, to the extent reasonably practicable, cause the Company to provide for or require:

(i) that the issuer(s) of such Marketable Securities shall undertake to issue and deliver to Optionee, upon any subsequent exercise of the Stock Option, such Marketable Securities as Optionee would have received if Optionee had so exercised the Stock Option prior to such Distribution Event or other Reorganization and had participated therein (and in any and all subsequent Distribution Events or other Reorganizations) to the maximum extent allowed to holders of Shares (including any Attributable Securities) outstanding at the time of such Distribution Event or other Reorganization; (ii) that such Marketable Securities shall be so issued and delivered to Optionee pursuant to an effective registration statement under the Securities Act of 1933, as amended, or otherwise free of any restriction on resale thereof by Optionee, other than any restriction on resale arising from Optionee's being an Affiliate or Insider (as such terms are defined in the Plan) of such issuer; (iii) that such Marketable Securities shall be so issued and delivered without any agreement, condition, payment or other consideration being required of Optionee or the Company;

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

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

8. Adjustments.

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

(b) Without limitation to the foregoing, in the event that the amount of Distributed Cash Value as of any date of exercise of the Stock Option is

equal to or greater than \$12.00 per Option Share, the Option Price shall be deemed to be \$.01 per Option Share and the Company, in addition to issuing Option Shares to Optionee, shall pay to Optionee in respect of each Option Share as to which the Stock Option is exercised an amount of cash equal to the remainder of (i) such amount of Distributed Cash Value per Option Share minus (ii) \$12.00.

9. No Rights in Option Shares. Optionee shall have no rights as a stockholder in respect of Option Shares until such Optionee becomes the holder of record of such Option Shares.

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

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

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

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

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

15. No Guarantee of Tax Consequences. Neither the Company nor any Subsidiary or Affiliate, nor the Board of Directors or any Committee, makes any commitment or guarantee that any federal or state tax treatment will apply or be available to any person eligible for benefits under the Stock Option.

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

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

Executed December 23, 1998, and effective as of the 1st day of January, 1998.

"COMPANY"

KAISER ALUMINUM CORPORATION

*By: /s/ E. Bruce Butler
Printed Name: E. Bruce Butler
Title: Vice President and General
Counsel*

KAISER ALUMINUM & CHEMICAL CORPORATION

*By: /s/ E. Bruce Butler
Printed Name: E. Bruce Butler
Title: Vice President and General Counsel*

Accepted December 24, 1998, and effective as of the 1st day of January, 1998.

"OPTIONEE"

*/s/ George T. Haymaker, Jr.
Printed Name: George T. Haymaker, Jr.
Title: Chief Executive Officer*

ATTACHMENT A

Performance-Accelerated Stock Option Grant

Definitions Applicable to Certain Terms

"Affiliate" see Section 2.1 of the Plan.

"Attributable Securities" see the definition of "Option Share".

"Cause" see Paragraph 6(b) of this Stock Option Grant.

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

"Company Sale Transaction" means (a) a transaction in which KAC or KACC (if KACC is a Subsidiary of KAC immediately prior to such transaction) (i) sells or otherwise disposes of all or substantially all of its business or operating assets (other than to one or more Subsidiaries) or (ii) merges or consolidates with another entity and as a result of consummation of such merger or consolidation a Change in Control occurs, (b) a tender offer, exchange offer or other transaction in which all holders of Shares have the right to receive cash, securities or other property in respect of their Shares and as a result of consummation of such transaction a Change in Control occurs or (c) a transaction determined by the Board of Directors to be similar or substantially equivalent to a transaction contemplated by clause (a) or clause (b) of this sentence.

"Disability" see Section 2.12 of the Plan.

"Distributed Cash Value" means, as of any determination date, the aggregate amount of cash (other than regular quarterly cash dividends, if any) plus the aggregate value, as determined by the Board of Directors as of the date of distribution, of all property (other than cash and Attributable Securities) distributed or set aside for distribution to the holder of one Original Share and all Attributable Securities, if any, during the period commencing January 1, 1998 and ending on the determination date.

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

"Effective" see Paragraph 4 of this Stock Option Grant.

"Employment" see Paragraph 6 of this Stock option Grant.

"Insider" see Section 2.19 of the Plan.

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

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

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

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

"Option Period" see Paragraph 2 of this Stock Option Grant.

"Option Price" see Paragraph 3 of this Stock Option Grant.

"Option Share" means (a) one Share as constituted on January 1, 1998 (an "Original Share") and (b) in the event of any one or more successive Distribution Events, all Marketable Securities ("Attributable Securities") into which or for which an Original Share or any Attributable Securities may be converted or exchanged or that a Stockholder may have the right to receive in respect of such Original Share or Attributable Securities.

"Optionee" see Paragraph 1 of this Stock Option Grant.

"Original Share" see the definition of "Option Share".

"Performance Hurdle Achievement" occurs if, as of any date prior to January 1, 2001, the Performance Measure is equal to or greater than the remainder of (a) \$18 minus (b) the Distributed Cash Value amount.

"Performance Measure" means as of any time, the sum of (a) the Share Performance Value plus (b) the Distributed Cash Value amount.

"Plan" see Paragraph 1 of this Stock Option Grant.

"Qualified Service Period" means the period from and including January 1, 1998 through and including the earlier of (a) December 31, 2000 or (b) the date immediately preceding the date of termination of Optionee's Employment; provided, however, that if Optionee's Employment has not terminated prior to the date that a proposed Company Sale Transaction is announced by KAC and such Company Sale Transaction is subsequently consummated, then Optionee's Qualified Service Period shall be deemed to continue through, and end on, the date of consummation of such Company Sale Transaction unless, prior to the date of consummation of such Company Sale Transaction, Optionee's Employment is terminated by the Company for Cause or is terminated by Optionee other than pursuant to Paragraph 6(c) of this Stock Option Grant.

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

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

"Share Performance Value" means, as of any determination date, the lesser of (a) the Market Value of one Option Share (including, as applicable, the Market Value of any Attributable Securities) determined as of the Trading Day immediately preceding the determination date or (b) the average of the Market Values of one Option Share (including, as applicable, the average of the Market Values of any Attributable Securities) for the 40 consecutive Trading Days ended on the Trading Day immediately preceding the determination date; provided, however, that, for purposes of calculating Share Performance Value, (i) no Trading Days shall be deemed to occur during the period commencing on the day that a proposed Company Sale Transaction is announced by KAC and ending on the day immediately preceding the date of consummation or termination of the proposed Company Sale Transaction, but (ii) 40 consecutive Trading Days shall be deemed to occur simultaneously on and as of the Trading Day immediately preceding the date of consummation of such Company Sale Transaction; and provided further, that in the event an Attributable Security has been trading for less than 40 consecutive Trading Days prior to the applicable determination date, then the calculation pursuant to clause (b) above shall be made as to such Attributable Security for such lesser number of consecutive Trading Days that such Attributable Security has been trading.

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

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

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

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

1. Grant of Stock Option. Kaiser Aluminum Corporation ("KAC") and Kaiser Aluminum & Chemical Corporation ("KACC"), both Delaware corporations (collectively, the "Company"), hereby evidence that the Company has granted to GEORGE T. HAYMAKER JR. ("Optionee") the right, privilege and option as herein set forth (the "Stock Option") to purchase up to 283,000 shares of common stock, \$.01 par value per share, of KAC (as more fully defined in Attachment A "Definitions Applicable to Certain Terms", which is incorporated herein and made a part hereof, the "Option Shares") in accordance with the terms of this document (this "Stock Option Grant").

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

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

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

2. Option Term. Subject to earlier termination as provided herein, or in the Plan, the Stock Option shall expire on December 31, 2002. The period during which the Stock Option is in effect shall be referred to as the "Option Period".

3. Option Exercise Price. The exercise price per Option Share (including any Attributable Securities, as defined in Attachment A) (the "Option Price") at which Optionee may purchase such Option Shares subject to the Stock Option shall be equal to the remainder of (i) \$9.3594 per Option Share minus (ii) the amount per Option Share of Distributed Cash Value (as defined in Attachment A) determined as of the date of exercise. Such Option Price shall also be subject to adjustment as provided in the Plan and this Stock Option Grant. The Company shall notify Optionee within thirty (30) days of each change in the Option Price.

4. Vesting. The Stock Option may be exercised during the Option Period only to the extent it has become a "Vested Option". Provided Optionee's Qualified Service Period (as defined in Attachment A) has not previously terminated, the Stock Option shall become a "Vested Option" as to one-third of the Option Shares as of 12:01 a.m. Houston time on December 31, 1998, as to an additional one-third of the Option Shares as of 12:01 a.m. Houston time on December 31, 1999 and as to the final one-third of the Option Shares as of 12:01 a.m. Houston time on December 31, 2000. Notwithstanding the preceding sentence, if a Company Sale Transaction (as defined in Attachment A) shall occur prior to January 1, 2001 and prior to the end of Optionee's Qualified Service Period, then the Stock Option shall become a Vested Option, exercisable as of the date of consummation of the Company Sale Transaction as to all Option Shares.

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

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

(a) Termination by the Company for Cause. If Optionee's Employment is terminated by the Company at any time for Cause, then (i) the Option Period shall terminate and (ii) Optionee's right to exercise the Stock Option shall terminate, in each case immediately upon Optionee's becoming subject to termination of Employment for Cause. Optionee shall be terminated for "Cause" if terminated as a result of Optionee's breach of Optionee's written employment or other engagement agreement, or if the Board of Directors determines that Optionee is being terminated as a result of misconduct, dishonesty, disloyalty, disobedience or action that might reasonably be expected to injure KAC or any Subsidiary or their business interests or reputation.

(b) Termination by the Company Other than for Cause. If Optionee's Employment is terminated by the Company prior to January 1, 2001 other than for Cause, then (i) the Stock Option and the Option Period shall not terminate and (ii) the Stock Option shall thereafter be exercisable as to all Option Shares from and including the date of such termination through a period of 12 months from such date of termination.

(c) Employment Agreement Termination. If Optionee terminates Optionee's Employment at the expiration of Optionee's Employment Agreement (December 5, 1999), or at any time within the month of expiration (December 1999), then (i) the Stock Option and the Option Period shall not terminate and (ii) the Stock Option shall thereafter be exercisable as to all Option Shares, but only during the period from and including the date of such termination through a period of 12 months from such date of termination.

(d) Other Termination. If Optionee's Employment terminates prior to January 1, 2001 for any reason other than those set forth in Paragraph 6

(a), Paragraph 6(b) and Paragraph 6(c), then

(i) the Stock Option and the Option Period shall not terminate but (ii) the Stock Option shall thereafter be exercisable only to the extent it has become a Vested Option as of the date of Optionee's Employment and otherwise is exercisable in accordance with the provisions of this Stock Option Grant and the Plan.

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

7. Reorganizations; Repurchase of Stock Option.

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

(b) Spin-Offs. If the Board of Directors authorizes any Distribution Event or other Reorganization as a result of which holders of Shares (as defined in Attachment A) become entitled, in their capacities as holders, to receive Marketable Securities, the Board of Directors shall, to the extent reasonably practicable, cause the Company to provide for or require:

(i) that the issuer(s) of such Marketable Securities shall undertake to issue and deliver to Optionee, upon any subsequent exercise of the Stock Option, such Marketable Securities as Optionee would have received if Optionee had so exercised the Stock Option prior to such Distribution Event or other Reorganization and had participated therein (and in any and all subsequent Distribution Events or other Reorganizations) to the maximum extent allowed to holders of Shares (including any Attributable Securities) outstanding at the time of such Distribution Event or other Reorganization; (ii) that such Marketable Securities shall be so issued and delivered to Optionee pursuant to an effective registration statement under the Securities Act of 1933, as amended, or otherwise free of any restriction on resale thereof by Optionee, other than any restriction on resale arising from Optionee's being an Affiliate or Insider (as such terms are defined in the Plan) of such issuer; (iii) that such Marketable Securities shall be so issued and delivered without any agreement, condition, payment or other consideration being required of Optionee or the Company;

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

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

8. Adjustments.

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

(b) Without limitation to the foregoing, in the event that the amount of Distributed Cash Value as of any date of exercise of the Stock Option is equal to or greater than \$9.3594 per Option Share, the Option Price shall be deemed to be \$.01 per Option Share and the Company, in addition to issuing Option Shares to Optionee, shall pay to Optionee in respect of each Option Share as to which the Stock Option is exercised an amount of cash equal to the remainder of (i) such amount of Distributed Cash Value per Option Share minus (ii) \$9.3594.

9. No Rights in Option Shares. Optionee shall have no rights as a stockholder in respect of Option Shares until such Optionee becomes the holder of record of such Option Shares.

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

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

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

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

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

15. No Guarantee of Tax Consequences. Neither the Company nor any Subsidiary or Affiliate, nor the Board of Directors or any Committee, makes any commitment or guarantee that any federal or state tax treatment will apply or be available to any person eligible for benefits under the Stock Option.

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

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

Executed December 23, 1998, and effective as of the 1st day of January, 1998.

"COMPANY"

KAISER ALUMINUM CORPORATION

*By: /s/E Bruce Butler
Printed Name: E. Bruce Butler
Title: Vice President
and General Counsel*

KAISER ALUMINUM & CHEMICAL CORPORATION

*By: /s/E. Bruce Butler
Printed Name: E. Bruce Butler
Title: Vice President
and General Counsel*

Accepted December 24, 1998, and effective as of the 1st day of January, 1998.

"OPTIONEE"

*/s/ George T. Haymaker, Jr.
Printed Name: George T. Haymaker Jr
Title: Chief Executive Officer*

ATTACHMENT A

Time-Based Stock Option Grant

Definitions Applicable to Certain Terms

"Affiliate" - see Section 2.1 of the Plan.

"Attributable Securities" - see the definition of "Option Share".

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

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

"Company Sale Transaction" means (a) a transaction in which KAC or KACC (if KACC is a Subsidiary of KAC immediately prior to such transaction) (i) sells or otherwise disposes of all or substantially all of its operating or business assets (other than to one or more Subsidiaries) or (ii) merges or consolidates with another entity and as a result of consummation of such merger or consolidation a Change in Control occurs, (b) a tender offer, exchange offer or other transaction in which all holders of Shares have the right to receive cash, securities or other property in respect of their Shares and as a result of consummation of such transaction a Change in Control occurs or (c) a transaction determined by the Board of Directors to be similar or substantially equivalent to a transaction contemplated by clause (a) or clause (b) of this sentence.

"Disability" - See Section 2.12 of the Plan.

"Distributed Cash Value" means, as of any determination date, the aggregate amount of cash (other than regular quarterly cash dividends, if any) plus the aggregate value, as determined by the Board of Directors as of the date of distribution, of all property (other than cash and Attributable Securities) distributed or set aside for distribution to the holder of one Original Share and all Attributable Securities, if any, during the period commencing January 1, 1998 and ending on the determination date.

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

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

"Insider" - see Section 2.19 of the Plan.

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

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

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

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

"Option Period" - see Paragraph 2 of this Stock Option Grant.

"Option Price" - see Paragraph 3 of this Stock Option Grant.

"Option Share" means (a) one Share as constituted on January 1, 1998 (an "Original Share") and (b) in the event of any one or more successive

Distribution Events, all Marketable Securities ("Attributable Securities") into which or for which an Original Share or any Attributable Securities may be converted or exchanged or that a Stockholder may have the right to receive in respect of such Original Share or Attributable Securities.

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

"Original Share" - see the definition of "Option Share".

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

"Qualified Service Period" means the period from and including January 1, 1998 through and including the earlier of (a) December 31, 2000 or (b) the date immediately preceding the date of termination of Optionee's Employment; provided, however, that if Optionee's Employment has not terminated prior to the date that a proposed Company Sale Transaction is announced by KAC and such Company Sale Transaction is subsequently consummated, then Optionee's Qualified Service Period shall be deemed to continue through, and end on, the date of consummation of such Company Sale Transaction unless, prior to the date of consummation of such Company Sale Transaction, Optionee's Employment is terminated by the Company for Cause or is terminated by Optionee other than pursuant to Paragraph 6(c) of this Stock Option Grant.

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

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

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

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

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

KAISER SEVERANCE PROTECTION AND CHANGE OF CONTROL BENEFITS PROGRAM

In 1998, Kaiser Aluminum Corporation ("KAC") and Kaiser Aluminum & Chemical Corporation ("KACC") implemented the Kaiser Severance Protection and Change of Control Benefits Program (the "Program") in order to provide certain selected executive officers and key employees of KACC (collectively, "Participants") with (i) incentives intended to increase the likelihood of retaining the services of the Participants and/or (ii) appropriate protection in the event of a job loss or change of control. The Program will generally remain in effect through December 31, 2000.

The three components of the Program, each of which is described more fully below, consist of (i) severance payments and benefits in the event of termination, (ii) retention payments condition upon continued employment through specified dates, and (iii) options relating to KAC Common Stock. Under the Program, KAC and KACC have the sole discretion to determine which executive officers and key employees participate in the Program and the level of participation. Not all components of the Program were offered or otherwise made available to all Participants.

Severance Benefits

Selected Participants are eligible for severance benefits under the Program upon termination of employment for any reason other than (i) the voluntary resignation or retirement of the Participant, (ii) the discharge of the Participant for serious cause or other reason prejudicial to KAC or KACC, (iii) the Participant becoming eligible for sick leave, long term disability or full early disability benefits under the Kaiser Aluminum Salaried Employees Retirement Plan, (iv) the Participant's refusal to accept another suitable position with KAC or KACC, or (v) the Participant's death. The benefits payable generally consist of a lump sum cash payment ranging from six months to one year of base salary (including, in some instances, prorated incentive awards based upon designated incentive targets) less whatever severance benefits the Participant would otherwise be eligible to receive under the Kaiser Aluminum Termination Payment and Benefits Plan Continuation Policy generally available to all regular salaried employees. Participants may also be entitled under the Program to continued medical, dental, life and accidental death and disability coverage for designated periods after termination.

In lieu of the severance benefits described above, selected Participants are also eligible for severance benefits in the event the Participant's employment terminates or constructively terminates due to a change of control⁽¹⁾ or significant restructuring⁽²⁾ (collectively, a "Fundamental Change") during a period which commences ninety (90) days prior to a Fundamental Change and ends on the first anniversary of the Fundamental Change. These benefits are not available if (i) the purchaser, new controlling entity, KAC or KACC offer the Participant suitable employment in a substantially similar capacity at the Participant's current level of compensation (regardless of whether the Participant accepts or rejects the suitable position), (ii) the Participant voluntarily resigns or is terminated, (iii) the Participant is discharged for serious cause or other reason prejudicial to KAC or KACC, (iv) the Participant becomes eligible within ninety (90) days prior to the Fundamental Change for sick leave, long term disability or full early disability benefits under the Kaiser Aluminum Salaried Employees

(1) For purposes of the Program, a "change of control" is generally defined as the transfer of all or substantially all of the assets of, or the merger, consolidation or reorganization of, KAC or KACC to or with another organization or the transfer of the stock of KAC or KACC to another organization in a manner such that neither KAC or MAXXAM Inc. controls KACC.

(2) For purposes of the Program, a "significant restructuring" is generally defined as the sale or other disposition of a designated portion of KACC's business.

Retirement Plan, or (v) the Participant dies. If a Participant fails to qualify for severance benefits under the Program as a result of a termination of the Participant's employment due to a Fundamental Change because of any of the above exclusions, the Participant will also fail to qualify for the severance benefits described above in the preceding paragraph.

The benefits payable under the Program as a result of a termination of employment due to a Fundamental Change generally consist of a lump sum cash payment ranging from nine months to two years of base salary (including, in some instances, prorated incentive awards based upon designated incentive targets) less whatever severance benefits the Participant would otherwise be eligible to receive under the Kaiser Aluminum Termination Payment and Benefits Plan Continuation Policy generally available to all regular salaried employees. Participants may also be entitled under the Program to continued medical, dental, life and accidental death and disability coverage for designated periods after termination due to a Fundamental Change.

Retention Payments

Under the Program, selected Participants are also eligible to receive retention payments conditioned upon continued employment as of a designated date. In each instance, the retention payment is also generally payable in the event a Participant's employment is terminated prior to the designated date unless the termination is for any reason described above which would preclude severance payments under the program. Retention payments under the Program generally consist of a lump sum cash payment and are generally based upon six months of salary (including, in some instances, prorated incentive awards based upon designated incentive targets).

KAC Common Stock Options

Under the Program, selected Participants are also eligible to receive options to purchase shares of KAC Common Stock. The number of shares of KAC Common Stock subject to such options and the specific terms of such options vary depending upon the level of responsibility and seniority of the Participant.

Notwithstanding the foregoing, such options generally (i) replace the long term incentive compensation targets otherwise applicable to the Participant receiving the options for designated long term incentive periods beginning on or after January 1, 1998, (ii) expire three to five years after the date of grant, (iii) are based upon market prices of KAC Common Stock on the date of grant, (iv) vest over a period of three or five years, and (v) terminate upon the termination for cause of the Participant.

EXHIBIT 23.1

CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS

As independent public accountants, we hereby consent to the incorporation of our reports included and incorporated by reference in this Form 10-K, into the Company's previously filed Registration Statements File No.'s 333-71, 333-16239 and 33-49889.

ARTHUR ANDERSEN LLP

Houston, Texas
March 29, 1999

EXHIBIT 23.2

We hereby consent to (i) any references to our firm, or (ii) any references to advice rendered by our firm contained in Kaiser Aluminum Corporation's Annual Report on Form 10-K for the year ended December 31, 1998, which is incorporated into the company's previously filed Registration Statements on Form S-3 No.'s 333-16239 and 333-71 and Registration Statement on Form S-8 No. 33-49889.

**WHARTON LEVIN EHRMANTRAUT
KLEIN & NASH, P.A.**

March 26, 1999

EXHIBIT 23.3

With respect to the Registration Statements on Form S-3 No.'s 33-16239 and 333-71 and Registration Statement on Form S-8 No. 33-49889 filed by Kaiser Aluminum Corporation, a Delaware corporation (the "Registration Statements"), we hereby consent to the use of our name, and to references to advice rendered by our firm, incorporated by reference into the Registration Statements from Kaiser Aluminum Corporation's Annual Report on Form 10-K for the year ended December 31, 1998, under the headings (i) Management's Discussion and Analysis of Financial Condition and Results of Operation - Liquidity and Capital Resources - Commitments and Contingencies, and (ii) Note 8 of Notes to the Consolidated Financial Statements.

HELLER EHRMAN WHITE & McAULIFFE

March 26, 1999

ARTICLE 5

This schedule contains summary financial information extracted from the consolidated financial statements of the Company for the twelve months ended December 31, 1998, and is qualified in its entirety by reference to such financial statements.

CIK: 0000811596

NAME: KAISER ALUMINUM CORPORATION

MULTIPLIER: 1,000,000

PERIOD TYPE	12 MOS
FISCAL YEAR END	DEC 31 1998
PERIOD START	JAN 01 1998
PERIOD END	DEC 31 1998
CASH	98
SECURITIES	0
RECEIVABLES	289
ALLOWANCES	6
INVENTORY	544
CURRENT ASSETS	1,030
PP&E	1,987
DEPRECIATION	878
TOTAL ASSETS	2,991
CURRENT LIABILITIES	558
BONDS	963
PREFERRED MANDATORY	0
PREFERRED	0
COMMON	1
OTHER SE	118
TOTAL LIABILITY AND EQUITY	2,991
SALES	2,256
TOTAL REVENUES	2,256
CGS	1,906
TOTAL COSTS	1,906
OTHER EXPENSES	144
LOSS PROVISION	0
INTEREST EXPENSE	110
INCOME PRETAX	(16)
INCOME TAX	(16)
INCOME CONTINUING	1
DISCONTINUED	0
EXTRAORDINARY	0
CHANGES	0
NET INCOME	1
EPS PRIMARY	.01
EPS DILUTED	.01

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